

STATE OF CALIFORNIA

**GENERAL PURPOSE
FINANCIAL STATEMENTS**

For the Year Ended
June 30, 1998



*Prepared by the Office of the
State Controller*

KATHLEEN CONNELL
State Controller

Combined Balance Sheet

All Fund Types, Account Groups, and Discretely Presented Component Units

June 30, 1998

(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
ASSETS AND OTHER DEBITS					
Cash and pooled investments (Note 3).....	\$ 1,176,939	\$ 5,538,465	\$ 232,125	\$ 2,984,951	\$ 301,564
Investments (Note 3).....	—	—	2,839	4,753,309	184,297
Amount on deposit with U.S. Treasury.....	—	—	—	—	—
Receivables (net).....	256,134	309,369	47	122,540	3,732
Due from other funds (Note 4).....	5,161,485	2,606,438	61,367	256,799	449,682
Due from primary government.....	—	—	—	—	—
Due from other governments.....	308,064	4,952,278	114	62,506	5,748
Prepaid items.....	—	—	—	22,535	17,298
Food stamps (Note 1D).....	—	591,952	—	—	—
Inventories, at cost.....	—	—	—	13,156	69,277
Net investment in direct financing leases (Note 6).....	—	—	—	4,941,288	—
Advances and loans receivable.....	545,840	1,407,801	—	2,545,195	—
Deferred charges.....	—	—	—	1,129,982	—
Fixed assets (Note 7).....	—	—	—	4,894,090	460,765
Investment in UCSF Stanford Health Care.....	—	—	—	—	—
Other assets.....	1,179	22,445	2	44,644	9,090
Amount to be provided for retirement of long-term obligations.....	—	—	—	—	—
Total Assets and Other Debits.....	\$ 7,449,641	\$ 15,428,748	\$ 296,494	\$ 21,770,995	\$ 1,501,453

Fiduciary Fund Type Trust and Agency	Account Groups		Total Primary Government (Memorandum Only)	Component Units		Total Reporting Entity (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations		University of California	Special Purpose Authorities	
\$ 18,538,010	\$ —	\$ —	\$ 28,772,054	\$ 82,075	\$ 649,620	\$ 29,503,749
263,128,261	—	—	268,068,706	54,678,587	7,630,478	330,377,771
4,485,855	—	—	4,485,855	—	—	4,485,855
10,125,541	—	—	10,817,363	1,655,950	320,583	12,793,896
5,343,688	—	—	13,879,459	152,648	—	14,032,107
—	—	—	—	135,356	2,564	137,920
1,047,233	—	—	6,375,943	158,840	264	6,535,047
8,359	—	—	48,192	—	—	48,192
—	—	—	591,952	—	—	591,952
—	—	—	82,433	88,267	—	170,700
—	—	—	4,941,288	—	—	4,941,288
1,510,824	—	—	6,009,660	—	4,768,258	10,777,918
—	—	—	1,129,982	52,243	59,998	1,242,223
—	16,771,485	—	22,126,340	14,570,910	581,650	37,278,900
—	—	—	—	417,349	—	417,349
96,707	—	—	174,067	2,099	884,761	1,060,927
—	—	23,030,548	23,030,548	—	—	23,030,548
<u>\$ 304,284,478</u>	<u>\$ 16,771,485</u>	<u>\$ 23,030,548</u>	<u>\$ 390,533,842</u>	<u>\$ 71,994,324</u>	<u>\$ 14,898,176</u>	<u>\$ 477,426,342</u>

(Continued)

Combined Balance Sheet

All Fund Types, Account Groups, and Discretely Presented Component Units

June 30, 1998

(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
LIABILITIES					
Accounts payable.....	\$ 1,292,643	\$ 1,281,269	\$ 26,485	\$ 144,379	\$ 140,951
Due to other funds (Note 4).....	1,841,764	4,448,733	48,729	379,220	221,843
Due to component units (Note 4).....	36,487	98,869	—	—	—
Due to other governments.....	2,856,839	1,622,202	3,064	150,391	69,488
Dividends payable.....	—	—	—	—	—
Deferred revenue (Note 1D).....	—	591,952	—	—	—
Advances from other funds.....	590,995	53,564	—	25,656	92,951
Tax overpayments.....	—	7,642	—	—	—
Benefits payable.....	—	—	—	267,767	41,085
Deposits.....	4	12,805	—	9,526	1,257
Contracts and notes payable.....	—	—	—	1,000	39,637
Lottery prizes and annuities.....	—	—	—	2,914,419	—
Compensated absences payable (Note 9).....	119,742	—	—	24,568	36,040
Certificates of participation, commercial paper, and other borrowings (Notes 10, 11).....	—	—	—	29,277	—
Capital lease obligations (Note 12).....	—	—	—	—	23,527
Advance collections.....	20,570	284,260	2,691	303,647	171,738
General obligation bonds payable (Note 14).....	—	—	—	4,016,865	—
Revenue bonds payable (Note 15).....	—	—	—	8,789,010	—
Interest payable.....	—	—	27,048	153,221	—
Securities lending obligation.....	—	—	—	—	—
Other liabilities.....	143,216	183,022	—	588,096	33,310
Total Liabilities.....	6,902,260	8,584,318	108,017	17,797,042	871,827
FUND EQUITY AND OTHER CREDITS					
Contributed capital (Notes 1K, 17B).....	—	—	—	195,233	344,184
Investment in general fixed assets (Notes 1K, 7).....	—	—	—	—	—
Retained earnings					
Reserved for regulatory requirements (Note 1K).....	—	—	—	250,560	—
Unreserved (Note 1K).....	—	—	—	3,528,160	285,442
Total Retained Earnings.....	—	—	—	3,778,720	285,442
Fund balances					
Reserved for					
Encumbrances (Note 1K).....	478,684	2,475,179	299,525	—	—
Local agencies (Notes 1K, 3).....	—	—	—	—	—
Advances and loans (Note 1K).....	545,840	1,407,801	—	—	—
Employees' pension benefits (Note 1K).....	—	—	—	—	—
Continuing appropriations (Note 1K).....	122,836	2,209,751	40,779	—	—
Other specific purposes (Note 1K).....	—	—	—	—	—
Total Reserved.....	1,147,360	6,092,731	340,304	—	—
Unreserved					
Undesignated (Deficit) (Note 1K).....	(599,979)	751,699	(151,827)	—	—
Total Fund Equity and Other Credits (Note 1K).....	547,381	6,844,430	188,477	3,973,953	629,626
Total Liabilities, Fund Equity, and Other Credits....	\$ 7,449,641	\$15,428,748	\$ 296,494	\$21,770,995	\$ 1,501,453

Fiduciary Fund Type	Account Groups		Total Primary Government (Memorandum Only)	Component Units		Total Reporting Entity (Memorandum Only)
	Trust and Agency	General Fixed Assets	General Long-Term Obligations	University of California	Special Purpose Authorities	
\$ 5,287,984	\$ —	\$ —	\$ 8,173,711	\$ 1,419,674	\$ 25,390	\$ 9,618,775
6,939,170	—	—	13,879,459	152,648	—	14,032,107
2,564	—	—	137,920	—	—	137,920
3,321,484	—	—	8,023,468	—	10,301	8,033,769
—	—	—	—	—	205,102	205,102
—	—	—	591,952	—	—	591,952
423,729	—	—	1,186,895	—	—	1,186,895
1,682,760	—	—	1,690,402	—	—	1,690,402
867,203	—	—	1,176,055	—	4,684,083	5,860,138
4,636,691	—	—	4,660,283	924,278	97,077	5,681,638
34,890	—	—	75,527	—	3,928	79,455
—	—	—	2,914,419	—	—	2,914,419
—	—	1,003,960	1,184,310	303,015	27,175	1,514,500
—	—	1,141,511	1,170,788	1,081,618	—	2,252,406
—	—	3,546,867	3,570,394	1,284,984	—	4,855,378
70,508	—	—	853,414	—	185,957	1,039,371
—	—	14,894,090	18,910,955	—	—	18,910,955
—	—	759,440	9,548,450	2,184,171	5,679,927	17,412,548
—	—	—	180,269	—	138,381	318,650
28,118,114	—	—	28,118,114	6,434,432	—	34,552,546
2,074,918	—	1,684,680	4,707,242	—	909,784	5,617,026
53,460,015	—	23,030,548	110,754,027	13,784,820	11,967,105	136,505,952
—	—	—	539,417	—	99	539,516
—	16,771,485	—	16,771,485	10,720,683	—	27,492,168
—	—	—	250,560	—	548,700	799,260
—	—	—	3,813,602	—	2,382,272	6,195,874
—	—	—	4,064,162	—	2,930,972	6,995,134
—	—	—	3,253,388	—	—	3,253,388
11,732,527	—	—	11,732,527	—	—	11,732,527
588,003	—	—	2,541,644	—	—	2,541,644
232,074,642	—	—	232,074,642	39,977,633	—	272,052,275
—	—	—	2,373,366	—	—	2,373,366
6,429,291	—	—	6,429,291	4,451,726	—	10,881,017
250,824,463	—	—	258,404,858	44,429,359	—	302,834,217
—	—	—	(107)	3,059,462	—	3,059,355
250,824,463	16,771,485	—	279,779,815	58,209,504	2,931,071	340,920,390
\$ 304,284,478	\$ 16,771,485	\$ 23,030,548	\$ 390,533,842	\$ 71,994,324	\$ 14,898,176	\$ 477,426,342

(Concluded)

The notes to the financial statements are an integral part of this statement.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds

Year Ended June 30, 1998

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Total Primary Government (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
REVENUES					
Taxes.....	\$ 53,575,173	\$ 4,444,397	\$ —	\$ 4,361,940	\$ 62,381,510
Intergovernmental.....	5,993	26,497,691	—	472,959	26,976,643
Licenses and permits.....	108,542	3,079,853	—	—	3,188,395
Natural resources.....	9,793	29,911	—	—	39,704
Charges for services.....	129,189	477,964	—	4,470	611,623
Fees and penalties.....	274,765	1,697,858	—	525,044	2,497,667
Interest.....	298,741	288,390	13,481	382,507	983,119
Escheat.....	—	—	—	139,397	139,397
Receipts from depositors.....	—	—	—	147,281	147,281
Other.....	97,411	268,069	4,715	445,138	815,333
Total Revenues.....	54,499,607	36,784,133	18,196	6,478,736	97,780,672
EXPENDITURES					
Current					
General government.....	1,524,130	2,501,969	12	62,488	4,088,599
Education.....	25,429,938	4,071,318	3	1,505,691	31,006,950
Health and welfare.....	14,344,376	22,989,501	—	4,437,364	41,771,241
Resources.....	558,659	1,410,931	6,071	30,790	2,006,451
State and consumer services.....	388,088	356,666	2,457	562	747,773
Business and transportation.....	63,433	5,889,876	23	11,206	5,964,538
Correctional programs.....	3,819,686	272,516	—	—	4,092,202
Property tax relief.....	617,030	290	—	—	617,320
Payments to depositors.....	—	—	—	120,541	120,541
Capital outlay.....	630,482	255,543	474,763	—	1,360,788
Debt service					
Principal retirement.....	978,134	4,951	19,026	—	1,002,111
Interest and fiscal charges.....	995,600	76,908	28,857	—	1,101,365
Total Expenditures.....	49,349,556	37,830,469	531,212	6,168,642	93,879,879
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	5,150,051	(1,046,336)	(513,016)	310,094	3,900,793
OTHER FINANCING SOURCES (USES)					
Proceeds from general obligation bonds, commercial paper, and capital leases.....	630,482	3,252,840	242,667	—	4,125,989
Proceeds from refunding long-term debt.....	—	784,670	246,058	—	1,030,728
Proceeds from revenue bonds.....	—	—	197,418	—	197,418
Operating transfers in.....	222,113	2,546,969	79,139	259,389	3,107,610
Operating transfers out.....	(646,018)	(2,152,646)	(3,360)	(211,846)	(3,013,870)
Transfers out - component unit.....	(2,332,356)	(52,053)	(12,219)	—	(2,396,628)
Payment to refunding escrow agent.....	—	(784,670)	(246,058)	—	(1,030,728)
Payment to refund commercial paper.....	—	(1,577,100)	—	—	(1,577,100)
Total Other Financing Sources (Uses).....	(2,125,779)	2,018,010	503,645	47,543	443,419
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses.....	3,024,272	971,674	(9,371)	357,637	4,344,212
Fund Balances (Deficit), July 1, 1997.....	(2,476,891)	5,872,756	197,848	6,659,657 *	10,253,370
Fund Balances, June 30, 1998.....	\$ 547,381	\$ 6,844,430	\$ 188,477	\$ 7,017,294	\$ 14,597,582

*Restated (see Note 1L)

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings

All Proprietary Fund Types and Discretely Presented Component Units – Special Purpose Authorities

Year Ended June 30, 1998

(Amounts in thousands)

	Proprietary Fund Types		Total Primary Government (Memorandum Only)	Component Units Special Purpose Authorities	Total Reporting Entity (Memorandum Only)
	Enterprise	Internal Service			
OPERATING REVENUES					
Lottery ticket sales.....	\$ 2,294,424	\$ —	\$ 2,294,424	\$ —	\$ 2,294,424
Service and sales.....	1,227,415	2,187,446	3,414,861	155,108	3,569,969
Earned premiums (net).....	336	—	336	1,052,835	1,053,171
Investment and interest.....	294,507	—	294,507	346,295	640,802
Contributions.....	—	—	—	2,636	2,636
Rent.....	364,332	—	364,332	20,164	384,496
Other.....	9,682	7,544	17,226	59,465	76,691
Total Operating Revenues.....	4,190,696	2,194,990	6,385,686	1,636,503	8,022,189
OPERATING EXPENSES					
Lottery prizes.....	1,182,038	—	1,182,038	—	1,182,038
Personal services.....	288,942	306,855	595,797	60,293	656,090
Supplies.....	74,274	29,107	103,381	—	103,381
Services and charges.....	921,538	1,775,067	2,696,605	213,132	2,909,737
Depreciation.....	99,191	70,146	169,337	12,012	181,349
Benefit payments.....	536	—	536	1,263,074	1,263,610
Interest expense.....	542,005	3,947	545,952	346,029	891,981
Amortization of deferred charges.....	21,239	—	21,239	147,160	168,399
Total Operating Expenses.....	3,129,763	2,185,122	5,314,885	2,041,700	7,356,585
Operating Income (Loss).....	1,060,933	9,868	1,070,801	(405,197)	665,604
NONOPERATING REVENUES (EXPENSES)					
Grants received.....	329	—	329	71,253	71,582
Grants provided.....	(26,890)	—	(26,890)	(71,253)	(98,143)
Interest revenue.....	155,458	16,271	171,729	731,082	902,811
Interest expense and fiscal charges.....	(203,266)	(33)	(203,299)	(3,269)	(206,568)
Dividends paid.....	—	—	—	(73,012)	(73,012)
Lottery payments for education.....	(803,525)	—	(803,525)	—	(803,525)
Other.....	(3,161)	1,405	(1,756)	4,210	2,454
Total Nonoperating Revenues (Expenses).....	(881,055)	17,643	(863,412)	659,011	(204,401)
Income Before Operating Transfers.....	179,878	27,511	207,389	253,814	461,203
OPERATING TRANSFERS					
Operating transfers in.....	24,974	13,461	38,435	—	38,435
Operating transfers out.....	(132,002)	(173)	(132,175)	—	(132,175)
Total Operating Transfers.....	(107,028)	13,288	(93,740)	—	(93,740)
Net Income.....	72,850	40,799	113,649	253,814	367,463
Retained Earnings, July 1, 1997.....	3,705,870 *	244,643 *	3,950,513	2,677,158 *	6,627,671
Retained Earnings, June 30, 1998.....	\$ 3,778,720	\$ 285,442	\$ 4,064,162	\$ 2,930,972	\$ 6,995,134

*Restated (see Note 1L)

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Non-GAAP Budgetary Basis - Budget and Actual All Governmental Cost Funds

Year Ended June 30, 1998

(Amounts in thousands)

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Major taxes and licenses			
Bank and corporation taxes.....	—	\$ 5,836,627	—
Cigarette and tobacco tax.....	—	161,503	—
Inheritance, estate and gift taxes.....	—	780,197	—
Insurance gross premiums tax.....	—	1,221,285	—
Vehicle license fees.....	—	34,978	—
Motor vehicle fuel tax.....	—	—	—
Personal income tax.....	—	27,925,096	—
Retail sales and use taxes.....	—	17,582,517	—
Other major taxes and licenses.....	—	316,635	—
Total Major Taxes and Licenses.....	—	53,858,838	—
Minor revenues.....	—	938,884	—
Total Revenues.....	—	54,797,722	—
EXPENDITURES			
Legislative, judicial, executive.....	\$ 1,522,990	1,508,438	\$ 14,552
State and consumer services.....	397,490	392,690	4,800
Business, transportation and housing.....	26,866	26,492	374
Trade and commerce.....	48,603	48,437	166
Resources.....	522,410	514,161	8,249
Environmental protection.....	89,727	68,133	21,594
Health and welfare.....	15,130,856	14,665,907	464,949
Correctional programs.....	3,925,730	3,891,431	34,299
Education.....	27,895,601	27,862,055	33,546
General government			
Tax relief and shared revenues.....	626,972	619,309	7,663
Debt service.....	1,990,440	1,978,878	11,562
Other general government.....	1,533,114	1,513,762	19,352
Total Expenditures.....	\$ 53,710,799	53,089,693	\$ 621,106
OTHER FINANCING SOURCES (USES)			
Transfers from other funds.....	—	132,009	—
Transfers to other funds.....	—	(174,501)	—
Other additions and deductions.....	—	154,355	—
Total Other Financing Sources (Uses).....	—	111,863	—
Excess of Revenues and Other Sources Over Expenditures and Other Uses.....			
	—	1,819,892	—
FUND BALANCES			
Fund Balances, July 1, 1997, Restated (Note 2C).....	—	972,592	—
Fund Balances, June 30, 1998.....	—	\$ 2,792,484	—

Other Governmental Cost Funds			Total		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
—	\$ 254	—	—	\$ 5,836,881	—
—	482,794	—	—	644,297	—
—	—	—	—	780,197	—
—	—	—	—	1,221,285	—
—	3,880,841	—	—	3,915,819	—
—	2,853,846	—	—	2,853,846	—
—	2,844	—	—	27,927,940	—
—	3,749,174	—	—	21,331,691	—
—	1,780,997	—	—	2,097,632	—
—	12,750,750	—	—	66,609,588	—
—	3,493,803	—	—	4,432,687	—
—	16,244,553	—	—	71,042,275	—
\$ 405,841	387,790	\$ 18,051	\$ 1,928,831	1,896,228	\$ 32,603
415,465	378,754	36,711	812,955	771,444	41,511
4,164,375	4,034,494	129,881	4,191,241	4,060,986	130,255
18,395	13,798	4,597	66,998	62,235	4,763
881,645	809,699	71,946	1,404,055	1,323,860	80,195
547,164	537,451	9,713	636,891	605,584	31,307
3,407,308	3,393,704	13,604	18,538,164	18,059,611	478,553
10,163	9,865	298	3,935,893	3,901,296	34,597
758,424	734,943	23,481	28,654,025	28,596,998	57,027
3,725,757	3,725,757	—	4,352,729	4,345,066	7,663
501	333	168	1,990,941	1,979,211	11,730
304,438	287,389	17,049	1,837,552	1,801,151	36,401
\$ 14,639,476	14,313,977	\$ 325,499	\$ 68,350,275	67,403,670	\$ 946,605
—	12,344,854	—	—	12,476,863	—
—	(14,012,727)	—	—	(14,187,228)	—
—	196,521	—	—	350,876	—
—	(1,471,352)	—	—	(1,359,489)	—
—	459,224	—	—	2,279,116	—
—	4,131,191	—	—	5,103,783	—
—	\$ 4,590,415	—	—	\$ 7,382,899	—

The notes to the financial statements are an integral part of this statement.

Combined Statement of Cash Flows

All Proprietary Fund Types and Discretely Presented Component Units –
Special Purpose Authorities

Year Ended June 30, 1998

(Amounts in thousands)

	Proprietary Fund Types		Component Units
	Enterprise	Internal Service (1)	Special Purpose Authorities
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss).....	\$ 1,060,933	\$ 9,868	\$ (405,197)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS			
Interest expense on operating debt.....	(4,599)	3,947	343,967
Depreciation.....	99,191	70,146	12,012
Accretion of capital appreciation bonds.....	11,173	—	9,956
Provisions and allowances.....	12,407	—	14,863
Accrual of deferred charges.....	(3,117)	—	(143,053)
Amortization of deferred credits.....	(254)	—	(4,600)
Amortization of discounts.....	(18,130)	—	6,136
Amortization of deferred charges.....	19,342	—	145,980
Purchase of program loans.....	—	—	(774,636)
Collection of principal from program loans.....	355	—	364,385
Other.....	(6,560)	2,274	(12,643)
Change in assets and liabilities			
Receivables.....	(37,597)	(1,763)	(21,617)
Due from other funds.....	4,466	(176,745)	446
Due from primary government.....	—	—	1,061
Due from other governments.....	(3,675)	(2,032)	—
Prepaid items.....	16	(1,248)	(35)
Inventories.....	7,457	(4,838)	—
Net investment in direct financing leases.....	180,904	—	—
Advances and loans receivable.....	221,090	—	—
Other assets.....	8,010	(3,421)	(118,862)
Accounts payable.....	(38,726)	(69,342)	1,926
Interest payable.....	(28,768)	(27)	—
Due to other funds.....	(24,136)	109,602	—
Due to component units.....	(1,556)	—	—
Due to other governments.....	28,737	68,915	3
Benefits payable.....	101,725	41,085	77,940
Deposits.....	3,195	(143)	8,656
Lottery prizes and annuities.....	(17,497)	—	—
Contract and notes payable.....	53	1,435	—
Compensated absences payable.....	(1,239)	(615)	1,416
Advance collections.....	(23,171)	49,061	(20,903)
Other liabilities.....	(7,220)	9,978	99,442
Total Adjustments.....	481,876	96,269	(8,160)
Net Cash Provided by (Used In) Operating Activities.....	1,542,809	106,137	(413,357)

(Continued)

(1) Internal service funds made *non-cash transactions* for installment purchases totaling approximately \$17 million to acquire equipment and equipment totaling approximately \$232 million moved from the General Fixed Assets Account Group. Noncash transactions are those portions of investing, financing, or capital activities that affected assets and liabilities but did not result in cash receipts or payments during the period.

	Proprietary Fund Types		Component
	Enterprise	Internal Service (1)	Special Purpose Authorities
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Dividends paid.....	—	—	(83,991)
Return of advances from other funds.....	(72,806)	(360)	—
Proceeds from general obligation bonds.....	447,535	—	—
Proceeds from revenue bonds.....	—	—	1,148,159
Retirement of general obligation bonds.....	(138,670)	—	—
Retirement of revenue bonds.....	(52,525)	—	(670,442)
Interest paid on operating debt.....	—	—	(337,224)
Operating transfers in.....	20,969	13,461	—
Operating transfers out.....	(134,771)	(173)	—
Grants provided.....	(26,890)	—	(71,253)
Lottery payments for education.....	(762,917)	—	—
Net Cash Provided by (Used In) Noncapital Financing Activities.....	(720,075)	12,928	(14,751)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Unamortized water project costs.....	(8,809)	—	—
Acquisition of intangible assets.....	—	(3,453)	—
Acquisition of fixed assets.....	(431,526)	(60,492)	(20,020)
Proceeds from sale of fixed assets.....	596	13,400	2,175
Advances from other funds.....	296,280	—	—
Return of advances from other funds.....	(321,020)	(1,280)	—
Proceeds from notes payable and commercial paper.....	44,552	—	—
Principal paid on notes payable and commercial paper.....	(75,085)	(10,958)	—
Payment of capital lease obligations.....	—	(6,735)	—
Retirement of general obligation bonds.....	(37,595)	—	—
Proceeds from revenue bonds.....	1,392,228	—	25,000
Retirement of revenue bonds.....	(1,084,626)	—	(2,261)
Interest paid.....	(201,024)	(3,980)	(3,432)
Contributed capital.....	—	423	—
Grants received.....	327	—	71,253
Operating transfers in.....	7,268	—	8,086
Payment to refunding bond escrow agent.....	(31,324)	—	—
Net Cash Provided by (Used In) Capital and Related Financing Activities.....	(449,758)	(73,075)	80,801
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments.....	(738,463)	(179,935)	(670,063)
Advances and loans provided.....	(8,405)	—	—
Collection of advances and loans.....	10,957	—	—
Proceeds from maturity and sale of investments.....	396,249	—	180,738
Interest on investments.....	119,928	16,303	720,243
Net Cash Provided by Investing Activities.....	(219,734)	(163,632)	230,918
Net Increase (Decrease) in Cash and Pooled Investments.....	153,242	(117,642)	(116,389)
Cash and Pooled Investments at July 1, 1997.....	2,831,709	419,206	766,009
Cash and Pooled Investments at June 30, 1998.....	\$ 2,984,951	\$ 301,564	\$ 649,620

(Concluded)

Combined Statement of Changes in Plan Net Assets

Pension Trust Funds and Discretely Presented Component Unit – University of California

Year Ended June 30, 1998
(Amounts in thousands)

	Primary Government Pension Trust Funds	Component Unit University of California Retirement System Funds
ADDITIONS		
Contributions	\$ 4,728,616	\$ 328
Employer.....	2,765,336	386,293
Plan member.....	7,493,952	386,621
Total Contributions.....		
Investment income	28,858,222	5,618,711
Net appreciation in fair value of investments.....	9,492,675	1,514,107
Interest, dividends, and other investment income.....	(1,857,285)	(279,623)
Less: Investment expense.....	36,493,612	6,853,195
Net Investment Income.....	8,836	—
Other.....	43,996,400	7,239,816
Total Additions.....		
DEDUCTIONS	7,612,916	948,977
Benefits.....	231,788	—
Refunds of contributions.....	166,029	21,171
Administrative expense.....	8,010,733	970,148
Total Deductions.....	35,985,667	6,269,668
Net Increase in Fund Balance Reserved for Employees' Pension Benefits.....	196,088,975 *	33,707,965
Fund Balance Reserved for Employees' Pension Benefits, July 1, 1997.....	\$ 232,074,642	\$ 39,977,633
Fund Balance Reserved for Employees' Pension Benefits, June 30, 1998.....		

*Restated (see Note 1L)

Statement of Changes in Net Assets

Investment Trust Fund – Local Agency Investment

Year Ended June 30, 1998
(Amounts in thousands)

CHANGE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 628,067
Income from investments.....	(1,365)
Less: Operating expenditures and expenses.....	626,702
Net Increase in Net Assets Resulting From Operations.....	
DISTRIBUTIONS TO PARTICIPANTS	(626,702)
Distributions paid and payable.....	
CHANGE IN NET ASSETS RESULTING FROM DEPOSITOR TRANSACTIONS	14,385,660
Receipts from depositors.....	(13,459,365)
Less: Withdrawals by depositors.....	926,295
Net Increase in Net Assets Resulting from Depositor Transactions.....	926,295
Total Change in Net Assets.....	10,806,232 *
Net Assets Held in Trust for Pool Participants, July 1, 1997.....	\$ 11,732,527
Net Assets Held in Trust for Pool Participants, June 30, 1998.....	

*Restated (see Note 1L)

The notes to the financial statements are an integral part of these statements.

Combined Balance Sheet – Discretely Presented Component Unit – University of California

June 30, 1998

(Amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Agency Funds	Retirement System Funds	Total (Memorandum Only)
ASSETS							
Cash.....	\$ 80,046	\$ —	\$ —	\$ 2,029	\$ —	\$ —	\$ 82,075
Investments.....	3,745,954	53,111	4,216,843	1,358,594	665,295	44,638,790	54,678,587
Receivables (net).....	980,338	275,968	119,359	1,791	—	278,494	1,655,950
Due from other funds.....	12,442	—	13,729	3,213	—	123,264	152,648
Due from primary government.....	135,356	—	—	—	—	—	135,356
Due from other governments.....	153,553	5,287	—	—	—	—	158,840
Inventories, at cost.....	88,267	—	—	—	—	—	88,267
Deferred charges.....	52,243	—	—	—	—	—	52,243
Fixed assets.....	—	—	—	14,570,910	—	—	14,570,910
Investment in UCSF Stanford Health Care.....	—	—	—	417,349	—	—	417,349
Other assets.....	—	—	—	2,099	—	—	2,099
Total Assets.....	\$ 5,248,199	\$ 334,366	\$ 4,349,931	\$ 16,355,985	\$ 665,295	\$ 45,040,548	\$ 71,994,324
LIABILITIES AND FUND EQUITY							
Liabilities							
Accounts payable.....	\$ 1,300,316	\$ —	\$ 44,463	\$ 47,899	\$ —	\$ 26,996	\$ 1,419,674
Due to other funds.....	123,265	2,000	12,327	15,056	—	—	152,648
Deposits.....	255,053	—	—	3,930	665,295	—	924,278
Compensated absences.....	303,015	—	—	—	—	—	303,015
Commercial paper and other borrowings.....	57,686	—	—	1,023,932	—	—	1,081,618
Capital lease obligations.....	—	—	—	1,284,984	—	—	1,284,984
Revenue bonds payable.....	—	11,480	—	2,172,691	—	—	2,184,171
Securities lending obligation.....	747,953	10,798	404,910	234,852	—	5,035,919	6,434,432
Total Liabilities.....	2,787,288	24,278	461,700	4,783,344	665,295	5,062,915	13,784,820
Fund Equity							
Investment in general fixed assets.....	—	—	—	10,720,683	—	—	10,720,683
Fund balances							
Employees' pension benefits.....	—	—	—	—	—	39,977,633	39,977,633
Reserved for other specific purposes.....	739,178	279,406	3,026,808	406,334	—	—	4,451,726
Undesignated.....	1,721,733	30,682	861,423	445,624	—	—	3,059,462
Total Fund Equity.....	2,460,911	310,088	3,888,231	11,572,641	—	39,977,633	58,209,504
Total Liabilities and Fund Equity.....	\$ 5,248,199	\$ 334,366	\$ 4,349,931	\$ 16,355,985	\$ 665,295	\$ 45,040,548	\$ 71,994,324

The notes to the financial statements are an integral part of this statement.

Combined Statement of Changes in Fund Balances – Discretely Presented Component Unit – University of California

Year Ended June 30, 1998

(Amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds
REVENUES AND OTHER ADDITIONS				
Student tuition and fees.....	\$ 1,056,843	\$ —	\$ —	\$ 16,432
U.S. government.....	4,212,471	3,182	—	9,759
Local government.....	102,484	—	—	—
Sales and services				
Educational activities.....	792,875	—	—	—
Medical centers.....	1,956,546	—	—	—
Auxiliary enterprises.....	571,698	—	—	—
Private gifts, grants, and contracts.....	631,430	313	26,210	90,936
Investment income				
Endowment activities.....	121,143	—	4,409	—
Securities lending.....	79,896	722	—	7,032
Other.....	185,102	9,153	—	46,949
Net appreciation in fair value of investments.....	9,989	42	659,332	5,020
Expended for plant facilities (including \$400,861 of current funds).....	—	—	—	614,404
Retirement of indebtedness.....	—	—	—	179,527
Other revenues.....	285,381	—	—	—
Transfers in — primary government.....	2,349,812	—	—	46,816
Other additions.....	46,719	5,469	451	7,491
Total Revenues and Other Additions.....	12,402,389	18,881	690,402	1,024,366
EXPENDITURES AND OTHER DEDUCTIONS				
Current fund expenditures				
Educational and general.....	6,405,386	—	—	—
Medical centers.....	1,854,194	—	—	—
Auxiliary enterprises.....	474,390	—	—	—
Department of Energy laboratories.....	2,726,809	—	—	—
Securities lending fees and rebates.....	76,989	695	—	6,776
Plant fund expenditures (including noncapitalized expenditures of \$23,069).....	—	—	—	236,612
Debt service				
Principal retirement.....	—	—	—	179,527
Interest.....	—	—	—	231,448
Disposal of plant assets.....	—	—	—	398,917
Debt extinguishment.....	—	—	—	1,895
Other.....	168,874	7,591	294	—
Total Expenditures and Other Deductions.....	11,706,642	8,286	294	1,055,175
TRANSFERS AMONG FUNDS				
Mandatory contractual arrangements				
Loan funds matching grants.....	(890)	890	—	—
Principal and interest.....	(309,839)	—	—	309,839
Nonmandatory (discretionary allocations).....	(386,314)	1,834	28,706	355,774
Total Transfers Among Funds.....	(697,043)	2,724	28,706	665,613
Net Increase (Decrease) in Fund Balances.....	(1,296)	13,319	718,814	634,804
Fund Balances, July 1, 1997.....	2,462,207	296,769	3,169,417	10,937,837
Fund Balances, June 30, 1998.....	\$ 2,460,911	\$ 310,088	\$ 3,888,231	\$ 11,572,641

Combined Statement of Current Funds Revenues, Expenditures, and Other Changes – Discretely Presented Component Unit – University of California

Year Ended June 30, 1998

(Amounts in thousands)

	Current Funds		Total (Memorandum Only)
	Unrestricted	Restricted	
REVENUES			
Student tuition and fees.....	\$ 1,056,843	\$ —	\$ 1,056,843
U.S. government appropriations, grants and contracts.....	280,923	1,177,840	1,458,763
Local government grants and contracts.....	1,645	99,765	101,410
Sales and services			
Education activities.....	792,875	—	792,875
Medical centers.....	1,956,546	—	1,956,546
Auxiliary enterprises.....	571,698	—	571,698
Private gifts, grants and contracts.....	56,950	510,462	567,412
Investment income			
Endowment and similar funds.....	27,527	73,435	100,962
Securities lending.....	52,379	26,516	78,895
Other.....	147,151	—	147,151
Net appreciation in fair value of investments.....	8,803	—	8,803
Department of Energy laboratories.....	29,625	2,726,809	2,756,434
Other revenues.....	285,341	—	285,341
Transfers in — primary government.....	1,998,232	249,798	2,248,030
Total Revenues.....	7,266,538	4,864,625	12,131,163
EXPENDITURES AND MANDATORY TRANSFERS			
Educational and general			
Instructional.....	1,971,751	139,494	2,111,245
Research.....	273,573	1,436,356	1,709,929
Public service.....	96,735	101,405	198,140
Academic support.....	753,227	107,961	861,188
Student services.....	261,187	9,817	271,004
Institutional support.....	492,663	30,916	523,579
Operation and maintenance of plant.....	287,121	2,644	289,765
Student financial aid.....	169,088	271,448	440,536
Total Educational and General.....	4,305,345	2,100,041	6,405,386
Mandatory transfers			
Loan fund matching grant.....	795	95	890
Debt service.....	91,931	105,762	197,693
Total Mandatory Transfers.....	92,726	105,857	198,583
Medical Centers			
Expenditures.....	1,851,361	2,833	1,854,194
Mandatory transfers.....	63,315	—	63,315
Total Medical Centers.....	1,914,676	2,833	1,917,509
Auxiliary enterprises			
Expenditures.....	465,964	8,426	474,390
Mandatory transfers.....	48,831	—	48,831
Total Auxiliary Enterprises.....	514,795	8,426	523,221
Department of Energy laboratories.....	—	2,726,809	2,726,809
Securities lending fees and rebates.....	50,473	26,516	76,989
Total Expenditures and Mandatory Transfers.....	6,878,015	4,970,482	11,848,497
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Restricted receipts in excess of restricted expenditures.....	—	224,508	224,508
Nonmandatory transfers.....	(337,300)	(49,014)	(386,314)
Other.....	(124,680)	2,524	(122,156)
Total Other Transfers and Additions (Deductions).....	(461,980)	178,018	(283,962)
Net Increase (Decrease) in Fund Balances.....	\$ (73,457)	\$ 72,161	\$ (1,296)

The notes to the financial statements are an integral part of this statement.

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Notes to the Financial Statements

NOTE 1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with generally accepted accounting principles (GAAP). The provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, have been implemented in this report. The provisions of GASB Technical Bulletin No. 98-1, Disclosures about Year 2000 Issues, have also been implemented in this report, except for the University of California. The University of California did not implement the provisions of this bulletin in its audited financial statements, since its auditor's report was dated before October 31, 1998, and the implementation was not required. The provisions of GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, have been implemented in this report for the public agency deferred compensation program that adopted the requirements of subsection (g) of the Internal Revenue Code Section 457 in the year ended June 30, 1998. However, GASB Statement No. 32 has not been implemented for the deferred compensation program for primary government employees.

A. Reporting Entity

As required by GASB Statement No. 14, The Financial Reporting Entity, these financial statements present the primary government of the State and its component units. The **primary government** consists of all funds, account groups, organizations, institutions, agencies, departments, and offices that are not legally separate from the State. GASB Statement No. 14 does not modify the fiduciary fund reporting requirements of the primary government. As a result, funds such as the Public Employees' Retirement Fund and the State Teachers' Retirement Fund are reported in the appropriate fiduciary funds. Component units are organizations that are legally separate from the State but for which the State is financially accountable, or for which the nature and significance of their relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The decision to include a potential component unit in the State's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Following is information on blended and discretely presented component units for the State.

Blended component units, although legally separate entities, are in substance part of the primary government's operations. Therefore, data from these blended component units are integrated into the appropriate funds for reporting purposes.

Building authorities are blended component units because they have been created through the use of Joint Exercise of Powers Agreements with various cities to finance the construction of state buildings. The building authorities are reported as capital projects funds. As a result, the \$319 million of capital lease arrangements between the building authorities and the State have been eliminated from the combined balance sheet. Instead, only the underlying fixed assets and the debt used to acquire them are reported in the appropriate account groups. Copies of the financial statements of the building authorities may be obtained from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876.

Discretely presented component units are reported in separate columns in the combined financial statements. Discretely presented component units are legally separate from the primary government, and mostly provide services to entities and individuals outside the State. For ease of presentation, discretely presented component units, other than the University of California, are included in the statements under the heading of special purpose authorities.

The University of California was founded in 1868 as a public, state-supported, land grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California. The University of California is a component unit of the State because the State appoints a voting majority of the Regents of the University of California, and expenditures for the support of various University of California programs and capital outlay are appropriated by the annual Budget Act.

Copies of the University of California's separately issued financial statements may be obtained from the University of California, Financial Management, 1111 Franklin Street, 10th Floor, Oakland, California 94607-5200.

Special purpose authorities are presented in three separate categories for condensed financial statement reporting purposes: State Compensation Insurance Fund (SCIF), California Housing Finance Agency (CHFA), and Non-Major Component Units. SCIF and CHFA are considered major component units while all other component units are shown as Non-Major Component Units.

The SCIF is a self-supporting enterprise created to offer insurance protection to employers at the lowest possible cost. It operates in competition with other insurance carriers to provide services to the State, counties, cities, school districts, or other public corporations. It is a component unit of the State because the State appoints all

five voting members of the SCIF's governing board and has the authority to approve or modify the SCIF's budget. Copies of the SCIF's financial statements for the year ended December 31, 1997, may be obtained from the State Compensation Insurance Fund, 1275 Market Street, San Francisco, California 94103.

The CHFA was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. The CHFA's purpose is to meet the housing needs of persons and families of low and moderate income. It is a component unit of the State because the State appoints a voting majority of the CHFA's governing board and has the authority to approve or modify its budget. Copies of the CHFA's financial statements may be obtained from the California Housing Finance Agency, 1121 L Street, Sacramento, California 95814.

State legislation created various other Non-Major Component Units to provide certain services outside the primary government and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. These entities are considered component units because the majority of governing board members are appointed by, or are members of, the primary government. Copies of the financial statements of these component units may be obtained from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876. The Non-Major Component Units are:

The California Infrastructure and Economic Development Bank, which provides financing for an interconnected system of public improvements;

The California Alternative Energy and Advanced Transportation Financing Authority, which provides financing for the alternative energy and advanced transportation technologies;

The California Pollution Control Financing Authority, which provides financing for pollution control facilities;

The California Health Facilities Financing Authority, which provides financing for the construction, equipping, or acquiring of health facilities;

The California Educational Facilities Authority, which issues revenue bonds to assist private educational institutions of higher learning in the expansion and construction of educational facilities;

The California School Finance Authority, which provides loans to school and community college districts to assist in obtaining equipment and facilities;

The California Economic Development Financing Authority, which issues revenue and general obligation bonds to finance business development and public infrastructure projects;

The District Agricultural Associations, which exhibit all of the industries, industrial enterprises, resources, and products of the State;

The San Joaquin River Conservancy, which was created to acquire and manage public lands within the San Joaquin River Parkway; and

The California Urban Waterfront Area Restoration Financing Authority, which provides financing for coastal and inland urban waterfront restoration projects.

A joint venture is an entity, resulting from a contractual arrangement, that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. In such an arrangement, the participants retain an ongoing financial interest or an ongoing financial responsibility in the entity. These entities are not part of the primary government or a component unit.

The State participates in a joint venture with the Capitol Area Development Authority (CADA). The CADA was created in 1978 by the Joint Exercise of Powers Agreement between the primary government and the City of Sacramento for the location of state buildings and other improvements. The CADA is a public entity separate from the primary government and the City, and is administered by a board of five members: two appointed by the primary government, two appointed by the City, and one appointed by the affirmative vote of at least three of the other four members of the board. The primary government designates the chairperson of the board. Although the primary government does not have an equity interest in the CADA, it does have an ongoing financial interest. Based upon the appointment authority, the primary government has the ability to indirectly influence the CADA to undertake special projects for the citizenry of the participants. The primary government subsidizes the CADA's operations by leasing land to the CADA without consideration; however, the primary government is not obligated to do so. Since the primary government does not have an equity interest in the CADA, the CADA's financial information is not included in the financial statements of this report. Separately issued financial statements can be obtained from the Capitol Area Development Authority, 1530 Capitol Avenue, Sacramento, California 95814.

Effective November 1, 1997, the University of California, San Francisco (UCSF) Medical Center (a portion of a discretely presented component unit) and Stanford Health Services, which manages and operates Stanford University's medical center, merged through the formation of UCSF Stanford Health Care, a separate non-profit corporation (the Corporation). The Corporation is governed by a seventeen member Board of Directors consisting of representatives from both universities, selected officers of the new corporation and three independent directors. The primary purpose of the

Corporation is to support, benefit, and further the charitable, scientific, and educational purposes of the Schools of Medicine at UCSF and Stanford. The UC's investment in the Corporation is accounted for as a joint venture using the equity method of accounting. The UC's interest in the earnings of the Corporation is recorded as revenue within the current unrestricted fund and as an increase in UC's assets. Equity distributions are recorded as a reduction in the UC's assets.

Substantially all of the medical center and clinical practice assets and liabilities of both the UCSF Medical Center and Stanford Health Services were either contributed or leased to the Corporation. The UC leased real property to the Corporation under long-term leases for a nominal annual rent and all personal property for terms ranging from 5 to 20 years, with bargain purchase options available at the end of the lease term. Such amounts have been accounted for as part of the investment in the Corporation.

Under the terms of the agreement, the Corporation's income or losses are allocated equally between the UC and Stanford University. The agreement provides for the Corporation's Board of Directors to annually determine whether to distribute a portion of operating income as academic contributions to each university. During the year ended June 30, 1998, the UC's share of the Corporation's income was \$18 million; no distributions were received by the UC.

The UC also entered into certain operating agreements with the Corporation, primarily for the use of UC employees, facilities, and technical expertise. The UC recorded revenue of \$153 million under these agreements during the fiscal year ended June 30, 1998. In addition to the operating agreements, the UC may manage a portion of the investments of the Corporation. The fair value of these investments totaled \$206 million at June 30, 1998.

Information on the finances of the Corporation may be obtained from the University of California, Financial Management, 1111 Franklin Street, 10th Floor, Oakland, California 94607-5200.

B. Fund Accounting

The financial statements of the State are organized and operated on the basis of funds, account groups, and component units. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds that are not recorded directly in those funds. A component unit is an organization which is legally separate from the State but for which the State is financially accountable, or for which the nature and significance of

their relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete.

The financial activities of the State accounted for in the accompanying financial statements are classified as follows.

Governmental Fund Types are used primarily to account for services provided to the general public without charging directly for those services. The State has three governmental fund types.

The *General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that do not need to be accounted for in another fund.

Special Revenue Funds account for transactions related to resources obtained from specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds account for transactions related to resources obtained and used to acquire or construct major capital facilities.

Proprietary Fund Types present financial data on activities that are similar to those found in the private sector. Users are charged for the goods or services provided. Pursuant to GASB Statement No. 20, the State applies all applicable GASB pronouncements as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless the FASB Statements and Interpretations conflict with or contradict GASB pronouncements for its proprietary funds. However, the State has elected not to apply FASB Statements and Interpretations issued after November 30, 1989, with one exception. The exception is Prison Industries, an internal service fund, which has elected to follow FASB pronouncements issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements. The State has two proprietary fund types.

Enterprise Funds account for goods or services provided to the general public on a continuing basis when (1) the State intends that all or most of the cost involved is to be financed by user charges, or (2) periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Internal Service Funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis.

Fiduciary Fund Types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. The State has four fiduciary fund types.

Expendable Trust Funds account for assets held in a trustee capacity when principal, income, and earnings on principal, may be expended in the course of a fund's designated operations.

Pension Trust Funds account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems.

Agency Funds account for assets held by the State, which acts as an agent for individuals, private organizations, other governments, or other funds. They are custodial in nature and do not measure the results of operations.

The *Investment Trust Fund* accounts for the deposits, withdrawals, and earnings of the Local Agency Investment Fund, an external investment pool for local governments and public agencies.

Account Groups are used to establish control over and accountability for the government's general fixed assets and general long-term obligations. The State has two account groups.

The *General Fixed Assets Account Group* accounts for governmental fixed assets not reported in a proprietary fund or a trust fund.

The *General Long-Term Obligations Account Group* accounts for unmatured general obligation bonds and other long-term obligations generally expected to be financed from governmental funds.

Discretely Presented Component Units are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the primary government. The discretely presented component units are classified as the University of California and as special purpose authorities. The University of California's financial statements are prepared in conformity with GAAP using the American Institute of Certified Public Accountants College Guide Model. As a result, the University of California's activities are accounted for in the following funds: Current Funds; Loan Funds; Endowment and Similar Funds; Plant Funds; Agency Funds; and Retirement System Funds. Special purpose authorities account for their activities as enterprise funds.

C. Measurement Focus and Basis of Accounting

Governmental Fund Types and **Expendable Trust Funds** are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unreserved fund balance is a measure of available spendable resources.

The accounts of the governmental fund types and expendable trust funds are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. Principal tax revenues

susceptible to accrual are recorded as taxpayers earn income (personal income and bank and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments. Other revenue sources are recorded when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months.

Compensated absences are accounted for on a modified accrual basis of accounting. Except for expenditures in the General Fund for earned leave of academic-year faculty, compensated absences expenditures are not accrued since it is not anticipated that compensated absences will be used in excess of a normal year's accumulation.

Agency Funds are custodial in nature and do not measure the results of operations. Assets and liabilities are recorded using the modified accrual basis of accounting.

Proprietary Fund Types, the Investment Trust Fund, and Pension Trust Funds are accounted for on the flow of economic resources measurement focus.

The accounts of the proprietary fund types, the investment trust fund, and pension trust funds are reported using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Lottery revenue and the related prize expense are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

For purposes of the statement of cash flows, all cash and pooled investments in the State Treasurer's Office pooled investment program are considered to be cash and cash equivalents.

Discretely Presented Component Units, which are classified as the University of California and special purpose authorities, are accounted for on the flow of current resources and flow of economic resources measurement focus, respectively. All use the full accrual basis of accounting.

D. Food Stamps

The distribution of food stamp benefits is recognized as revenue and expenditures in a special revenue fund, as required by GAAP. Revenue and expenditures are recognized when the benefits are distributed to the recipients. Food stamp balances held by the counties are reported as an asset and offset by deferred revenue. Revenues, expenditures, and balances of food stamp benefits are measured based on face value.

E. Inventories

Inventories are primarily stated at either the lower of average cost or market, or at cost utilizing the weighted average valuation method. In governmental fund types, inventories are recorded as expenditures when purchased. In proprietary fund types, inventories are expensed when consumed.

The discretely presented component units have inventory policies similar to the primary government's.

F. Net Investment in Direct Financing Leases

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. The payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities and energy efficiency projects. Upon expiration of these leases, jurisdiction of the facilities and projects will be with the primary government agency, University of California, or local agency. The State Public Works Board records the net investment in direct financing leases at the net present value of the minimum lease payments.

G. Deferred Charges

The deferred charges account in the enterprise fund type primarily represents operating and maintenance costs and unrecovered capital costs that will be recognized as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as deferred charges. These charges are recognized when billed in future years under the terms of water supply contracts.

H. Fixed Assets

The **General Fixed Assets Account Group** includes capital assets that are not assets of any specific fund, but rather of the primary government as a whole. Most of these assets arise from the expenditure of the financial resources of governmental funds and expendable trust funds used to acquire or construct them. The General Fixed Assets Account Group does not include fixed assets of proprietary funds or pension trust funds. These fixed assets are accounted for in their respective funds.

The General Fixed Assets Account Group is presented in the financial statements at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Interest during construction has not been capitalized. Also, public domain or "infrastructure" fixed assets are not capitalized. Accumulated depreciation is not recorded in the General Fixed Assets Account Group. Purchased fixed assets are stated at historical cost. Tangible and intangible property are capitalized if the property has a normal useful life of at least one year and an acquisition cost of at least \$5,000.

Proprietary Fund Type fixed assets, consisting of property, plant, and equipment, are stated at cost at the date of acquisition, less accumulated depreciation. They are depreciated over their estimated useful or service lives, ranging from two to 100 years, using the straight-line method of depreciation. Dormitory facilities, which represent 15.2% of the fixed assets of the enterprise funds, are not depreciated.

The fixed assets of the **discretely presented component units** are stated at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Depreciation on the majority of the fixed assets of the discretely presented component units is not recorded, which is consistent with GAAP.

I. Long-Term Obligations

The primary government reports long-term obligations of governmental funds in the General Long-Term Obligations Account Group. Long-term obligations consist of unmatured general obligation bonds, certain unmatured revenue bonds, capital lease obligations, certificates of participation, commercial paper, the net pension obligation of the pension trust funds, the liability for employees' compensated absences and workers' compensation claims, amounts owed for lawsuits, and the primary government's share of the University of California pension liability.

With approval in advance from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds, the building authorities, and agencies. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of the building authorities, which are included in capital projects funds, the liability for revenue bonds is recorded in the respective fund.

J. Compensated Absences

In the governmental funds, only the amounts of compensated absences that normally would be liquidated with expendable available financial resources are accrued at year end, such as costs of academic year faculty. The costs of the academic-year faculty represent services rendered over a ten-month period that are paid over a 12-month period. The balance of the amounts owed for services rendered are reported as a current liability in the General Fund. Unless it is anticipated that compensated absences will be used in excess of a normal year's accumulation, no additional liabilities are accrued. As a result, the unpaid liability for governmental funds is recorded in the General Long-Term Obligations Account Group. Accumulated sick-leave balances are not included in the compensated absences because they do not vest to employees. However, unused sick-leave balances convert to service credits upon retirement.

The amounts of vested unpaid vacation and annual leave accumulated by state employees are accrued when incurred in proprietary funds. In the discretely presented component units, the

compensated absences are accounted for in a similar manner as the proprietary funds in the primary government.

K. Fund Equity

Fund equity accounts present the difference between assets and liabilities of a fund. The fund equity accounts consist of *contributed capital* and *retained earnings* for proprietary funds and certain component units, *investment in general fixed assets* for the General Fixed Assets Account Group and certain component units, and *fund balance* for governmental funds, trust funds, and certain component units.

Contributed capital is the permanent fund capital of a proprietary fund. Contributed capital is created when a residual equity transfer is received by a proprietary fund, when a general fixed asset is "transferred" to a proprietary fund, or when a grant is received that is externally restricted to capital acquisition or construction.

Retained earnings are divided into two sections: *reserved for regulatory requirements* and *unreserved*. The reserved for regulatory requirements represents a segregation of the retained earnings in enterprise funds and certain component units for amounts that are unavailable for general use as a result of specific legal requirements. Unreserved retained earnings represent the accumulated earnings of proprietary funds and certain component units that are not reserved for any specific purpose.

The fund balances for governmental funds and trust funds are divided into two sections: *reserved* and *unreserved-undesignated*. Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balances that are legally segregated for specific uses. The reserves of the fund balance for governmental funds, trust funds, and component units are as follows:

Reserved for encumbrances represents goods and services that are ordered, but not received, by the end of the year.

Reserved for Local Agencies represents amounts held on behalf of local governments and local public agencies in the Local Agency Investment Fund, an investment trust fund.

Reserved for advances and loans receivable represents advances to other funds and the non-current portion of loans receivable that do not represent expendable available financial resources.

Reserved for employees' pension benefits represents reserves of the pension trust funds and the University of California, a discretely presented component unit. These reserves include accumulated contributions made by employees and employers, and undistributed interest and investment earnings.

Reserved for continuing appropriations represents the unencumbered balance of all appropriations for which the period of

availability extends beyond the period covered by this report. These appropriations are legally segregated for a specific future use.

Reserved for other specific purposes includes trust and agency fund amounts of the Unemployment Fund, other expendable trust funds, and the University of California, a discretely presented component unit, that are not available for future appropriations other than those for which the funds were established.

The *unreserved-undesignated* amounts represent the net of total fund balance, less reserves, for governmental funds and certain component units.

Investment in general fixed assets represents the fixed assets of the governmental funds and expendable trust funds reported in the General Fixed Assets Account Group and the fixed assets of the University of California, a discretely presented component unit, that are restricted for specific purposes.

**L. Restatement of
Beginning Fund
Equity**

The beginning retained earnings in the enterprise funds have been increased by \$0.9 million as a result of reclassifying a program (Public Employees' Retirement System (PERS) Long-Term Care Program) from expendable trust fund, and by \$24 million as a result of restatement of investments to fair value per GASB 31. The beginning retained earnings in the enterprise funds have been decreased by \$245 million as a result of establishing a liability that should have been recognized in a prior year.

The beginning retained earnings in the internal service funds have been increased by \$111 million as a result of reclassifying certain programs (PERS Health Care Fund and PERS Contingency Reserve Fund) from the expendable trust funds.

The beginning fund balance of the expendable trust funds has been reduced by \$65 million (net) as a result of: (1) reclassifying the PERS Health Care Program and PERS Contingency Reserve Program to internal service funds; (2) reclassifying PERS Long-Term Care Program to enterprise funds; (3) reclassifying the Volunteer Firefighter Length/Service Program from pension trust funds, and (4) changing the accounting policy, as required by GASB Statement No. 32, which added the Public Agency Deferred Compensation Program (IRC 457).

The beginning net assets of the pension trust funds have been increased by \$18 million (net) as a result of reclassifying the State Teachers' Retirement System 403 (b) program from an agency fund to a pension trust fund and reclassifying the Volunteer Firefighter Length/Service Program from a pension trust fund to an expendable trust fund.

The net assets of the investment trust fund have been established this year by reclassifying the Local Agency Investment Fund from an

agency fund to an investment trust fund, as a result of implementation of GASB Statement No. 31.

The beginning retained earnings in the special purpose authorities have been increased by \$89 million as a result of the State Compensation Insurance Fund converting from accounting practices prescribed by the California Department of Insurance to generally accepted accounting principles for the year ended December 31, 1997.

M. Guaranty Deposits

The State is custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

**N. Memorandum Only
Total Columns**

Total columns captioned "memorandum only" do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2.

BUDGETARY AND LEGAL COMPLIANCE

**A. Budgeting and
Budgetary Control**

The State's annual budget is prepared primarily on a modified accrual basis for governmental funds. The Governor recommends a budget for approval by the Legislature each year. This recommended budget includes estimated revenues; however, revenues are not included in the budget adopted by the Legislature. Under state law, the State cannot adopt a spending plan that exceeds estimated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations and establish the legal level of control at the appropriation level for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders by the Governor.

Amendments to the initial budget for the year ended June 30 were legally made, and are included in the budget data in the financial statements. The amendments had the effect of increasing spending authority and expenditures for the year.

Appropriations are generally available for expenditure or encumbrance either in the year appropriated or for a period of three years if the legislation does not specify a period of availability. At the

end of the availability period, the encumbering authority for the unencumbered balance lapses. Some appropriations continue indefinitely while others are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period when the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

Legislative appropriations are based on when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year goods and services are received. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Non-GAAP Budgetary Basis-Budget and Actual includes all the current year expenditures for governmental cost funds and their related appropriations that are legislatively authorized annually, continually, or by project.

B. Legal Compliance

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall appropriation control and does not allow expenditures in excess of authorized appropriations.

Financial activities are mainly controlled at the appropriation level but can vary depending on the presentation and wording contained in the Budget Act. Certain items which are established at the category, program, component, or element levels can be adjusted by the Department of Finance. While the financial activities are controlled at various levels, the legal level of budgetary control has been established in the Budget Act at the appropriation level for the annual operating budget.

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Non-GAAP Budgetary Basis-Budget and Actual is not presented in this document at the legal level of budgetary control, as such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the *Budgetary/Legal Basis Annual Report Supplement*, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with GASB's Codification of Governmental Accounting and Financial Reporting Standards Section 2400.112. The Statement of Appropriations, Expenditures, and Balances and the Comparative Statement of Actual and Budgeted Expenditures include the comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of this report is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876.

C. Reconciliation of Budgetary Basis with GAAP Basis

The State annually reports its financial condition based on GAAP (GAAP basis) and on the State's budgetary provisions (budgetary basis). The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Non-GAAP Budgetary Basis-Budget and

Actual is compiled on the budgetary basis. The differences between budgetary basis fund balances and the fund equity prepared in accordance with GAAP are explained and reconciled in the following paragraphs and Table 1.

The beginning fund balance on the budgetary basis is restated for "prior year revenue adjustments" and "prior year expenditure adjustments." A prior year revenue adjustment occurs when the actual amount received in the current year differs from the prior year accrual of revenues. A prior year expenditure adjustment results when the actual amount paid in the current year differs from the prior year accrual for appropriations whose ability to encumber funds has lapsed in previous periods. The beginning fund balance on a GAAP basis is not affected by this adjustment.

Perspective Difference

Fund classification: On a budgetary basis, the State's funds are classified as either governmental cost funds or nongovernmental cost funds. The governmental cost funds consist of the General Fund and other governmental cost funds into which revenues from taxes, licenses, and fees that support the general operations of the State are deposited. The nongovernmental cost funds are not subject to annual appropriated budgets and consist of funds into which monies derived from sources other than general and special taxes, licenses, fees, or other state revenues are deposited. On a GAAP basis, the financial information is classified as governmental, proprietary, or fiduciary funds, or as component units.

Basis Difference

Advances and loans receivable: Loans made to other funds or to other governments are normally recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The General Fund had education loans outstanding as of June 30, 1998, of \$785 million, which will be forgiven and charged to expenditures in the year of appropriation on a budgetary basis. On a GAAP basis, these education loans were charged to expenditures for the year ended June 30, 1996, the year that the agreement was made to forgive the loans. The adjustments related to advances and loans caused a decrease to the fund balance of \$714 million in the General Fund and an increase to the fund balance of \$1.4 billion in special revenue funds, \$395 million in enterprise funds, and \$588 million in trust and agency funds.

Escheat property: A liability for the estimated amount of escheat property ultimately expected to be reclaimed and paid is not reported on a budgetary basis, while it is required to be reported on a GAAP basis. This adjustment caused a \$478 million decrease to the General Fund balance.

Authorized and unissued bonds: General obligation bonds that are not self-liquidating are recorded as additions to the fund balance for the special revenue and capital projects funds on the budgetary basis when voters authorize the sale of bonds. However, in

accordance with GAAP, only the bonds issued during the year are recorded as additions to the fund balance. The adjustments related to authorized and unissued bonds caused a decrease to fund balance of \$2.8 billion in special revenue funds and \$1.1 billion in capital projects funds.

Provision for long-term obligations: On the budgetary basis, a provision for long-term obligations is used to offset certain bonds payable. However, in accordance with GAAP, this account is not used for enterprise funds. This adjustment caused a \$2.6 billion decrease to the enterprise fund balance.

Encumbrances: The State does not record certain encumbrances on a budgetary basis that are recorded on a GAAP basis. The adjustments related to encumbrances caused an increase to the fund balance of \$488 million in special revenue funds.

Fixed assets: For certain enterprise programs, the budgetary basis uses the modified accrual basis of accounting for fixed assets, which expenses fixed asset costs. In accordance with GAAP, fixed assets for enterprise funds should be capitalized and depreciated using the accrual basis of accounting. This adjustment caused a \$1.4 billion increase to the enterprise fund balance.

Fair value of investments: The increase in Lottery Fund investments for adjustments to fair value does not result in a corresponding increase in a liability on the budgetary basis. However, on a GAAP basis, the liability is increased since the investments will be used for lottery prizes and annuities. This adjustment caused a \$327 million decrease to the enterprise fund balance.

Fund balances in agency funds: Fund balances are reported in agency funds on the budgetary basis. In accordance with GAAP, agency funds do not have a fund balance since they account for assets held solely in a custodial capacity. Accordingly, assets in agency funds are always matched with liabilities to the owners of these assets. This adjustment caused a \$23.8 billion decrease to the agency fund balance.

Escrow fund investments: Investments in a certain escrow fund are reported on a budgetary basis. However on a GAAP basis, they are not considered to belong to the primary government since they are related to the proceeds from debt refundings for an escrow agent. This adjustment caused a decrease to the fund balance of \$972 million in special revenue funds.

Contributed capital: Contributed capital within the fund balance and the corresponding assets are not reported for certain programs on the budgetary basis. In accordance with GAAP, the fund balance is increased for contributed capital and the corresponding assets. This adjustment caused a \$232 million increase to the internal service fund balance.

Other: Certain other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP. The other adjustments caused a decrease in fund balance of \$112 million in the General Fund, \$331 million in special revenue funds, \$481 million in enterprise funds, \$9 million in internal service funds, and \$93 million in trust and agency funds and an increase in fund balance of \$72 million in capital projects funds and \$242 million in component units.

Timing Difference

Liabilities budgeted in subsequent years: The primary government does not, on a budgetary basis, accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to account for these liabilities in accordance with GAAP caused a net decrease to the fund balance of \$941 million in the General Fund and \$114 million in special revenue funds.

Entity Difference

Entities not included in the State's accounting system: There are some discretely presented component units that are not included in the budgetary basis accounting system, but are included on a GAAP basis. This adjustment caused a \$58.5 billion increase to the component units fund balance, of which \$58.2 billion is related to the University of California.

Table 1

Reconciliation of Budgetary Basis Fund Balances and GAAP Basis Fund Equity

June 30, 1998
(Amounts in thousands)

	Primary Government							Component Units
	Total Budgetary Fund Classifications	Governmental Funds Types			Proprietary Fund Types		Fiduciary Fund Types Trust and Agency	
		General	Special Revenue	Capital Projects	Enterprise	Internal Service		
Perspective Difference								
Budgetary / Legal Basis Annual Report								
General Fund.....	\$ 2,792,484	\$ 2,792,484	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Other Governmental Cost Funds.....	4,590,415	—	4,349,649	48,484	77,757	11,719	102,766	40
Non-Governmental Cost Funds.....	288,298,356	—	4,806,554	1,183,694	5,523,839	395,146	274,034,853	2,354,270
Total Budgetary Fund								
Balances Reclassified into GAAP								
Statement Fund Structure.....	\$ 295,681,255	2,792,484	9,156,203	1,232,178	5,601,596	406,865	274,137,619	2,354,310
Basis Difference								
Advances and loans receivable.....			1,407,801	—	395,025	—	588,003	—
Escheat property.....	(713,841)	(477,913)	—	—	—	—	—	—
Authorized and unissued bonds.....	—	—	(2,791,401)	(1,115,401)	—	—	—	—
Provision for long-term obligations.....	—	—	—	—	(2,579,631)	—	—	—
Encumbrances.....	—	—	488,481	—	1,364,223	—	—	—
Fixed assets.....	—	—	—	—	(326,749)	—	—	—
Fair value of investments.....	—	—	—	—	—	—	(23,808,359)	—
Fund balances in agency funds.....	—	—	(971,774)	—	—	—	—	—
Escrow fund investments.....	—	—	—	—	—	231,993	—	—
Contributed capital.....	(112,167)	—	(331,103)	71,700	(480,511)	(9,232)	(92,800)	242,171
Other.....	—	—	—	—	—	—	—	—
Timing Difference								
Liabilities budgeted in subsequent years.....	(941,182)	—	(113,777)	—	—	—	—	—
Entity Difference								
Entities not included in State's accounting system.....	—	—	—	—	—	—	—	58,544,094
GAAP Fund Equity, June 30.....	\$ 547,381	\$ 6,844,430	\$ 188,477	\$ 3,973,953	\$ 629,626	\$ 250,824,463	\$ 61,140,575	

NOTE 3.**DEPOSITS AND INVESTMENTS**

As required, the State has adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This statement, with a few exceptions, requires investments to be reported at fair value.

State statutes authorize investments in certain types of securities. The State Treasurer administers a single pooled investment program comprising both an internal investment pool and an external investment pool (the Local Agency Investment Fund). There is a single portfolio of investments with all participants having an undivided interest in the portfolio. Both pools are administered in the same manner as described below. In addition, certain programs have the authority to separately invest their funds.

The State's pooled investment program and certain other programs of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to have investments in United States government securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds, and other investments.

The State Treasurer's Office administers a pooled investment program for the primary government and for certain special purpose authorities. As of June 30, the special purpose authorities' cash and pooled investments were approximately 2% of the State Treasurer's Office pooled investment portfolio. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs.

Both deposits and investments are included in the State's investment program. The State Treasurer's Office maintains cash deposits with certain banks that do not earn interest income. Income earned on these deposits compensates the banks for services and uncleared checks that are deposited in the pooled investment program's accounts.

All demand and time deposits, totaling approximately \$2.2 billion, which were held by financial institutions as of June 30, were insured by federal depository insurance or by collateral held by the State Treasurer's Office or by an agent of the State Treasurer's Office in the State's name. The California Government Code requires collateral pledged for demand and time deposits to be deposited with the State Treasurer.

As of June 30, the State Treasurer's Office had amounts on deposit with fiscal agents totaling approximately \$12 million. These deposits are related to principal and interest payments due to bondholders. These deposits are insured by federal depository insurance or by

collateral held by an agent of the State Treasurer's Office in the State's name.

The State Treasurer's Office reports its investments at fair value. The fair value of all securities in the State Treasurer's Office pooled investment program is based on quoted market prices. As of June 30, the average remaining life of the securities in the pooled money investment program administered by the State Treasurer's Office was approximately 215 days.

The Pooled Money Investment Board provides regulatory oversight over the State Treasurer's Office pooled investment program. The purpose of the Board is to design an effective cash management and investment program, using all monies flowing through the State Treasurer's Office bank accounts and keeping all available funds invested consistent with the goals of safety, liquidity and yield. The Pooled Money Investment Board is comprised of the State Treasurer, as chair; the State Controller; and the Director of Finance. This Board designates the amounts of temporarily idle money available for investment. The State Treasurer is charged with making the actual investment transactions for this investment program. This program is not registered with the Securities and Exchange Commission as an investment company.

The value of the deposits of the State Treasurer's Office pooled investment program, including the Local Agency Investment Fund, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 1998, this difference was immaterial to the valuation of the program. The pool is run with a "dollar-in dollar-out" participation. There are no share value adjustments to reflect changes in fair value.

Certain funds have elected to participate in the pooled money investment program, even though they have the authority to make their own investments. Others may be required by legislation to participate in the program. As a result, the deposits of these funds or accounts may be considered involuntary. However, they are part of the State's reporting entity. The remaining participation in the pool, the Local Agency Investment Fund, is all voluntary.

Certain funds, which have deposits in the State Treasurer's Office pooled investment program, do not receive the interest earnings on their deposits. The earnings on the investments related to those funds are legally required to be assigned to the State's General Fund. A major portion of the \$279 million interest revenue received by the General Fund from the pooled money investment program comes from these funds.

The State Treasurer's Office pooled investment program values participants' shares on an amortized cost basis. Specifically, the program distributes income to participants on a quarterly basis

based on their relative participation during the quarter. This participation is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This method differs from the fair value method used to value investments in these financial statements because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair value of the pool's investments. Since the total difference between the fair values of the investments in the pool and the values distributed to pool participants using the amortized cost method described above is not material, no adjustment was made to the financial statements.

The State Treasurer's Office reports participant fair value as a ratio of amortized cost on a quarterly basis, with the June 30 valuation being externally audited. The State Treasurer's Office has not provided or obtained a legally binding guarantee to support the principal invested in the investment program.

The fair value, the ranges of interest rates, and the maturity dates of each major investment classification in the State Treasurer's Office pooled investment program are summarized in Table 4.

Tables 2 and 3 present summary financial statements of the Local Agency Investment Fund (LAIF), an Investment Trust Fund.

Table 2

Condensed Statement of Net Assets - LAIF

June 30, 1998

(Amounts in thousands)

Assets	
Cash and pooled investments.....	\$ 11,732,527
Due from other funds.....	166,839
Total Assets.....	\$ 11,899,366
Liabilities	
Due to other funds.....	\$ 267
Due to other governments.....	166,572
Total Liabilities.....	166,839
Net Assets Held in Trust for Pool Participants.....	\$ 11,732,527

Table 3**Condensed Statement of Changes in Net Assets - LAIF**

Year Ended June 30, 1998

(Amounts in thousands)

Changes in Net Assets Resulting from Operations.....	\$ 626,702
Distributions to Participants.....	(626,702)
Changes in Net Assets Resulting from Depositor Transactions.....	926,295
Total Change in Net Assets.....	926,295
Net Assets Held in Trust for Pool Participants, July 1, 1997.....	10,806,232
Net Assets Held in Trust for Pool Participants, June 30, 1998.....	\$ 11,732,527

As of June 30, floating rate notes and mortgage-backed assets comprised less than 5% of the pooled investments. For the floating rate notes in the portfolio, the interest received by the State Treasurer's Office pooled investment program will rise or fall as the underlying index rate rises or falls. The structure of the floating rate notes in the State Treasurer's Office pooled investment program portfolio is such that it hedges the portfolio against the risk of increasing interest rates. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs). A REMIC is a security backed by a pool of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule.

The California Government Code allows the State Treasurer's Office to enter into reverse repurchase agreements, as part of its pooled investment program. A reverse repurchase agreement is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the State Treasurer's Office or provide securities or cash of equal value, the State Treasurer's Office pooled investment program will suffer an economic loss equal to the difference between the market value plus the accrued interest of the underlying securities and the agreement obligation, including accrued interest. During the year ended June 30, the State Treasurer's Office entered into 21 reverse repurchase agreements by temporarily selling investments with a carrying value of approximately \$2.4 billion. The maturities of investments made with the proceeds from reverse repurchase agreements were matched to the maturities of the agreements. As of June 30, the State Treasurer's Office did not have any reverse repurchase agreements outstanding.

Enterprise funds, trust and agency funds, an internal service fund, and a building authority in the capital projects funds also make separate investments, which are presented at fair value. California Public Employees' Retirement System (CalPERS) and State

Teachers' Retirement System (STRS) had \$258.9 billion in these separately invested funds.

Under the State Constitution, CalPERS has the authority to invest in stocks, bonds, mortgages, real estate, and other investments. CalPERS maintains certain deposits, cash equivalents, and other investments with financial institutions.

The fair value of CalPERS' investments in securities is generally based on published market prices and quotations from major investment firms. Many factors are considered in arriving at that fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock, less an appropriate discount.

CalPERS' mortgages are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, is estimated based on independent appraisals. Short-term investments are reported at market value, when available, or at cost plus accrued interest, which approximates market value when market values are not available. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments.

Under the State Constitution and statutory provisions governing CalPERS investment authority, CalPERS, through its outside investment managers, holds investments in futures and options and enters into forward foreign currency exchange contracts. Futures and options of approximately \$76 million were held for investment purposes as of June 30, 1998. Gains and losses on futures and options are determined based upon quoted market values and recorded in the statement of changes in net assets. Forward foreign currency exchange contracts are used primarily to hedge against changes in exchange rates related to foreign securities. As of June 30, 1998, CalPERS had approximately \$76 million net exposure to loss from forward foreign currency exchange transactions related to the \$30 billion international debt and equity portfolios. CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. CalPERS anticipates that the counterparties will be able to satisfy their obligations under the contracts.

The investments of the STRS consist of government, corporate, and international bonds, domestic and international equities, mutual funds, limited partnership holdings, real estate, mortgages, and other investments. The majority of the securities held in the STRS

investment portfolio as of June 30, 1998, are in the custody of, or controlled by, the State Street Bank and Trust Company, the master custodian of the STRS.

The fair value of investments for STRS is generally based on published market prices and quotations from major investment firms. In the case of debt securities acquired through private placements, management computes fair value based on market yields and average maturity dates of comparable quoted securities. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Real estate equity investment fair value represent the most recent appraisals. Short-term investments are reported at cost, or amortized cost, which approximates fair value.

Purchases and sales of debt securities, equity securities, and short term investments by STRS are recorded on the trade date. Real estate equity transactions are recorded on the settlement date.

The State Constitution, state statutes, and agency policies permit CalPERS and STRS to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. Third party securities lending agents have been contracted to lend domestic and international equity and debt securities. All securities loans can be terminated on demand by the lender or the borrower. Collateral, in the form of cash or other securities, is required at 102% and 105% of the fair value of domestic and international securities loaned, respectively. As of June 30, 1998, there was no credit risk of exposure to borrowers because the amount of collateral held exceeded the amounts owed to the borrowers. The cash received as collateral is invested in accordance with investment guidelines. The weighted-average maturity of all investments of the cash collateral was less than 90 days as of June 30. Collateral securities received are not permitted to be pledged or sold unless the borrower defaults. The contracts with the securities lending agents require them to indemnify CalPERS and STRS if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrower fails to pay for income distributions by the securities' issuers while the securities are on loan.

As of June 30, the State, including discretely presented component units, had investments in securities lending agreements, real estate, investment contracts, mutual funds, and other investments totaling \$56.6 billion. These investments are not subject to classification. All remaining investments reported as of June 30 are categorized in three categories of credit risk:

1. Insured or registered, or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or by an agent in the State's name.

3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or by an agent but not in the State's name.

The types of investments reported at year end are representative of the types of investments made during the year. Furthermore, the credit risk associated with the investments reported at year end is representative of the credit risk associated with investments made during the year.

Table 4 presents the risk categories of the primary government as of June 30.

Table 4

Schedule of Investments - Primary Government

June 30, 1998

(Amounts in thousands)

	Interest Rates	Maturity	Category			Total Fair Value
			1	2	3	
Pooled Investments *						
U.S. government securities.....	4.95 - 6.16	121 days - 4 years	\$ 11,113,471	\$ —	\$ —	\$ 11,113,471
Negotiable certificates of deposit....	5.54 - 5.80	1 day - 1 year	4,761,260	—	—	4,761,260
Banker's acceptances.....	5.46 - 5.75	1 day - 180 days	20,845	—	—	20,845
Commercial paper.....	5.44 - 5.70	1 day - 150 days	9,446,571	—	—	9,446,571
Corporate bonds.....	5.68 - 6.28	1 day - 5 years+	1,723,059	—	—	1,723,059
Bank notes.....	5.54 - 5.80	1 day - 1 year	1,270,739	—	—	1,270,739
Total Pooled Investments.....			28,335,945	—	—	28,335,945
Separately Invested Funds Subject to Categorization						
Equity securities.....			133,929,222	—	—	133,929,222
Securities lending collateral.....			28,118,114	—	—	28,118,114
Mortgage loans and notes.....			15,829,572	—	—	15,829,572
U.S. government and agencies.....			9,469,700	76,287	—	9,545,987
Debt securities - STRS.....			16,718,122	—	—	16,718,122
Corporate bonds.....			8,070,690	—	—	8,070,690
Commercial paper.....			3,206,905	—	—	3,206,905
Other investments.....			5,426,111	—	—	5,426,111
Total Separately Invested Funds Subject To Categorization.....			220,768,436	76,287	—	220,844,723
Separately Invested Funds Not Subject to Categorization						
Investments held by broker-dealers under securities loans with cash collateral.....						28,163,284
Real estate.....						8,081,783
Venture capital and private equity funds.....						3,723,253
Investment contracts.....						2,728,643
Mutual funds.....						2,266,806
Mortgage loans.....						246,691
Other.....						2,013,523
Total Separately Invested Funds Not Subject to Categorization.....						47,223,983
Total Investments.....			\$ 249,104,381	\$ 76,287	\$ —	\$ 296,404,651

* Approximately 2% of the pooled investments are:

* Approximately 2% of the pooled investments are investments of special purpose authorities which are discretely presented component units. For special purpose authorities' separately invested funds, see Table 6.

The investments of the University of California, a discretely presented component unit, are stated at fair value. All of the University's investments recorded in each fund group are associated with the University of California Retirement System (UCRS), General Endowment Pool (GEP), High Income Pool (HIP), or Short Term Investment Pool (STIP) or are separately invested. Investments authorized by the Regents for the UCRS, GEP, HIP, and other separate investments include equities and fixed income securities. The equity portion of the investment portfolio may include common stocks, preferred stocks, venture capital partnerships, and emerging market funds. Where donor agreements place constraints on allowable investments, assets associated with endowment and similar funds are invested in accordance with the terms of the agreements. Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of five years. In addition, the Regents have also authorized loans, with terms up to 30 years, to faculty members under the University of California's Mortgage Origination Program.

The GEP and HIP are balanced portfolios in which a large number of individual endowment funds participate in order to benefit from diversification and economies of scale. The net assets of the endowment and similar funds group are invested in either the GEP, HIP, or STIP or are separately invested. The separately invested funds cannot be pooled due to investment restrictions or income requirements. All of the University of California's fund groups participate in the STIP. Current funds to provide for the payroll, operating expenses, and construction expenditures of all campuses and medical centers are invested in the STIP until expended.

The UCRS contains funds associated with the University of California's defined benefit and defined contribution plans.

The University of California participates in a securities lending program as a means to augment income. Securities are lent to select brokerage firms for which collateral is received in excess of the fair value of such investments during the period of the loan. Collateral may be cash or securities issued by the U. S. Government or its agencies, or the sovereign or provincial debt of foreign countries. Collateral securities cannot be pledged or sold by the University unless the borrower defaults. Loans of domestic equities and all fixed income securities are initially collateralized at 102% of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105%. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100% of the fair value of securities lent. The University receives interest and dividends during the loan period as well as a fee from the brokerage firm. Securities on loan for cash collateral are not considered to be categorized. As of June 30, the University had no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University. The University is fully indemnified by its

custodial bank against any losses incurred as a result of borrower default.

Securities loans immediately terminate upon notice by either the University or the borrower. Cash collateral is invested by the University's lending agent, as an agent for the University, in a short term investment pool in the University's name, with guidelines approved by the Treasurer of the Regents. As of June 30, the securities in this pool had a weighted average maturity of 131 days. Table 5 presents risk categories of the University of California investments as of June 30.

Table 5

Schedule of Investments - University of California - Discretely Presented Component Unit

June 30, 1998

(Amounts in thousands)

	Category			Total
	1	2	3	Fair Value
Separately Invested Funds Subject to Categorization				
Equity securities.....	\$ 24,953,325	\$ —	\$ —	\$ 24,953,325
Securities lending collateral.....	6,456,961	—	—	6,456,961
U.S. government and agency securities.....	4,514,940	—	—	4,514,940
Corporate bonds.....	4,889,049	—	—	4,889,049
Other investments.....	5,784,419	—	—	5,784,419
Total Separately Invested Funds Subject to Categorization.....	46,598,694	—	—	46,598,694
Separately Invested Funds Not Subject to Categorization				
Investments held by broker-dealers under securities loans with cash collateral.....				6,299,890
Venture capital and private equity funds.....				1,210,622
Insurance contracts.....				205,398
Mortgage loans.....				242,230
Other investments.....				121,753
Total Separately Invested Funds Not Subject to Categorization.....				8,079,893
Total Investments.....	\$ 46,598,694	\$ —	\$ —	\$ 54,678,587

The cash and pooled investments of the special purpose authorities, which are discretely presented component units, are primarily invested in the State Treasurer's Office pooled investment program. Additionally, state law, bond resolutions, and investment policy resolutions allow the authorities to invest in United States government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, and other investments.

Table 6 presents the risk categories of the special purpose authorities investments outside of the State Treasurer's Office pooled investment program, as of June 30, 1998. Included in the investments of the special purpose authorities are the investments of the SCIF as of December 31, 1997. The SCIF represents 81% of the fair value of the authorities' investments.

Table 6

Schedule of Investments – Special Purpose Authorities – Discretely Presented Component Units *June 30, 1998
(Amounts in thousands)

	Category			Total Fair Value
	1	2	3	
Separately Invested Funds Subject to Categorization				
U.S. government securities.....	\$ 2,646,398	\$ —	\$ —	\$ 2,646,398
Corporate bonds.....	2,383,267	—	—	2,383,267
Mortgage loans and notes.....	1,086,291	—	—	1,086,291
Commercial paper.....	19,269	—	—	19,269
Investment agreements.....	—	121,824	—	121,824
Other investments.....	64,748	—	—	64,748
Total Separately Invested Funds Subject to Categorization.....	6,199,973	121,824	—	6,321,797
Separately Invested Funds Not Subject to Categorization				
Investment agreements.....				1,202,030
Mutual funds.....				106,651
Total Separately Invested Funds Not Subject to Categorization.....				1,308,681
Total Investments.....	\$ 6,199,973	\$ 121,824	\$ —	\$ 7,630,478

* For special purpose authorities' pooled investments, see Table 4.

**DUE FROM OTHER FUNDS, DUE TO OTHER FUNDS,
ADVANCES AND LOANS RECEIVABLE, ADVANCES FROM
OTHER FUNDS, DUE FROM PRIMARY GOVERNMENT,
AND DUE TO COMPONENT UNITS**

NOTE 4.

The balances of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due from Primary Government, and Due to Component Units are shown in Table 7.

The total Advances and Loans Receivable of \$10.8 billion is more than the total Advances from Other Funds of \$1.2 billion because \$9.6 billion of loans to other governmental entities and individuals are included in the loans receivable amounts.

Table 7

Schedule of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due from Primary Government, and Due to Component Units
 June 30, 1998 (Amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances and Loans Receivable	Advances from Other Funds	Due from Primary Government	Due to Component Units
General Fund.....	\$ 5,161,485	\$ 1,841,764	\$ 545,840	\$ 590,995	\$ —	\$ 36,487
Special Revenue						
Federal.....	7,347	3,656,546	37,902	—	—	—
Transportation Construction.....	1,213,885	198,232	119,242	—	—	—
Transportation Safety.....	76,736	126,959	—	—	—	12
Business and Professions				—	—	—
Regulatory and Licensing.....	134,615	50,684	1,434	—	—	—
Environmental and						
Natural Resources.....	143,479	82,018	1,207,391	41,995	—	—
Financing to Local Governments.....	19,602	6,382	—	—	—	—
Cigarette and Tobacco Tax.....	92,082	89,588	—	—	—	—
Local Revenue.....	194,072	28,378	—	—	—	97,357
Unemployment Programs.....	624,297	43,709	—	—	—	—
Financing to the Public.....	590	4,107	37,625	—	—	—
Trial Courts.....	51,765	110,027	—	—	—	—
Other Special Revenue.....	47,968	52,103	4,207	11,569	—	—
Total Special Revenue.....	2,606,438	4,448,733	1,407,801	53,564	—	1,500
Capital Projects						98,869
Prison Construction.....	687	663	—	—	—	—
Higher Education Construction.....	1,482	11,892	—	—	—	—
Natural Resources Acquisition and						
Enhancement.....	17,369	1,397	—	—	—	—
Building Authorities.....	40,941	33,858	—	—	—	—
Other Capital Projects.....	888	919	—	—	—	—
Total Capital Projects.....	61,367	48,729	—	—	—	—
Enterprise						
Housing Loan.....	4,470	516	2,027,773	12,254	—	—
Water Resources.....	71,787	33,593	73,237	403	—	—
School Building Aid.....	—	52,265	192,640	—	—	—
Toll Facilities.....	11,077	15,587	16,687	6,160	—	—
California State University.....	14,786	16,000	2,632	2,632	—	—
Leasing of Public Assets.....	135,936	4,960	—	—	—	—
State Lottery.....	8,871	251,311	—	—	—	—
Health Facilities Construction						
Loan Insurance.....	3,632	149	—	—	—	—
Public Employees' Benefits.....	—	706	—	—	—	—
Other Enterprise.....	6,240	4,133	232,226	4,207	—	—
Total Enterprise.....	256,799	379,220	2,545,195	25,656	—	—
Internal Service						
Architecture Revolving.....	105,595	3,801	—	—	—	—
Service Revolving.....	68,796	118,315	—	—	—	—
Prison Industries.....	18,224	3,271	—	—	—	—
Stephen P. Teale Data Center.....	17,610	315	—	—	—	—
Health and Welfare Agency						
Data Center.....	49,707	231	—	—	—	—
Water Resources.....	59,744	303	—	91,517	—	—
Public Employees' Health Care.....	4,216	4,029	—	—	—	—
Equipment Service.....	125,090	88,399	—	—	—	—
Other Internal Service.....	700	3,179	—	—	—	—
Total Internal Service.....	449,682	221,843	—	92,951	—	—

(Continued)

Table 7 (continued)

Schedule of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due From Primary Government, and Due to Component Units
 June 30, 1998 (Amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances and Loans Receivable	Advances from Other Funds	Due from Primary Government	Due to Component Units
Expendable Trust						
Unemployment.....	12,937	89,351	—	—	—	—
School Employees.....	1,726	5,260	—	—	—	—
Unemployment Compensation Disability.....	49,128	8,490	—	—	—	—
California State University and Colleges Trust.....	12,800	19,839	—	—	—	—
State Guaranteed Loan Reserve.....	2,110	443	—	—	—	—
Housing Loan.....	3,129	413	588,003	—	—	—
Unclaimed Property.....	—	2,567	477,913	—	—	—
Other Expendable Trust.....	17,140	9,064	—	—	—	—
Total Expendable Trust.....	98,970	135,427	1,065,916	—	—	—
Pension Trust						
Public Employees' Retirement.....	5,040	—	—	—	—	—
Judges' Retirement.....	8	374	—	—	—	—
Judges' Retirement II.....	20	—	—	—	—	—
Legislators' Retirement.....	5	206	—	—	—	—
Total Pension Trust.....	5,073	580	—	—	—	—
Agency						
Revenue Collecting and Disbursing.....	4,761,264	5,802,949	423,729	423,729	—	—
Deposit.....	28,507	625,514	21,179	—	—	—
Deferred Compensation Plan.....	124	370	—	—	—	—
Departmental Trust.....	3,254	228	—	—	—	2,564
Other Agency.....	279,657	373,835	—	—	—	2,564
Total Agency.....	5,072,806	6,802,896	444,908	423,729	—	—
Investment Trust Fund						
Local Agency Investment.....	166,839	267	—	—	—	—
Total Investment Trust.....	166,839	267	—	—	—	—
University of California						
Current Funds.....	12,442	123,265	—	—	135,356	—
Loan Funds.....	—	2,000	—	—	—	—
Endowment and Similar Funds.....	13,729	12,327	—	—	—	—
Plant Funds.....	3,213	15,056	—	—	—	—
Retirement System Funds.....	123,264	—	—	—	—	—
Total University of California.....	152,648	152,648	—	—	135,356	—
Special Purpose Authorities						
California Housing Finance Agency	—	—	4,768,258	—	2,564	—
Non-Major.....	—	—	—	—	2,564	—
Total Special Purpose Authorities..	—	—	4,768,258	—	5,128	—
Total.....	\$ 14,032,107	\$ 14,032,107	\$ 10,777,918	\$ 1,186,895	\$ 137,920	\$ 137,920

(Concluded)

NOTE 5.**RESTRICTED ASSETS**

Table 8 presents a summary of the legal restrictions on assets as of June 30. The restricted assets of the primary government are in the enterprise funds, except for \$1 million in the internal service funds.

Table 8**Schedule of Restricted Assets**

June 30, 1998

(Amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Funds	Other Assets
Primary Government				
Debt service.....	\$ 765,067	\$ 767,377	\$ 171	\$ 1,504
Construction.....	462,491	9,159	499	815
Deposits.....	9,354	—	—	—
Equipment repair and replacement.....	54,100	—	622	129
Operations.....	150	—	—	—
Other.....	15,035	—	—	—
Total Primary Government.....	1,306,197	776,536	1,292	2,448
Discretely Presented Component Units				
University of California				
Risk insurance.....	—	215,621	—	—
Debt service requirements.....	—	182,545	—	—
Plant acquisition, construction, and renovation.....	—	80,349	—	—
Plant renewal and replacement.....	—	531	—	—
Special Purpose Authorities				
Debt service.....	347,417	1,336,946	—	—
Total Discretely Presented Component Units.....	347,417	1,815,992	—	—
Total All Restricted Assets.....	\$ 1,653,614	\$ 2,592,528	\$ 1,292	\$ 2,448

NOTE 6.**NET INVESTMENT IN DIRECT FINANCING LEASES**

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board.

The minimum lease payments to be received by the State Public Works Board for the primary government are summarized in Table 9.

Table 9

**Schedule of Minimum Lease Payments to be Received by the
State Public Works Board for the Primary Government**
(Amounts in thousands)

Year Ending June 30	Primary Government Agencies	University of California	Local Agencies	Total
1999.....	\$ 354,600	\$ 106,157	\$ 62,752	\$ 523,509
2000.....	382,153	109,028	65,456	556,637
2001.....	362,826	106,102	65,129	534,057
2002.....	354,615	104,184	61,878	520,677
2003.....	356,691	103,313	57,171	517,175
Thereafter.....	4,264,671	1,438,145	682,316	6,385,132
Total Minimum Lease Payments.....	6,075,556	1,966,929	994,702	9,037,187
Less unearned income.....	2,730,342	925,530	440,027	4,095,899
Net Investment in Direct Financing Leases.....	\$ 3,345,214	\$ 1,041,399	\$ 554,675	\$ 4,941,288

NOTE 7.**FIXED ASSETS**

Table 10 is a summary of changes in the General Fixed Assets Account Group for the year ended June 30.

Table 10

Schedule of Changes in General Fixed Assets
(Amounts in thousands)

	Balance July 1, 1997	Additions	Deductions	Balance June 30, 1998
Land.....	\$ 1,972,754	\$ 54,224	\$ 27,974	\$ 1,999,004
Structures and Improvements.....	10,657,038	915,404	162,003	11,410,439
Equipment.....	2,218,235	224,695	628,334	1,814,596
Construction in progress..	1,107,266	724,614	284,434	1,547,446
Total.....	\$ 15,955,293	\$ 1,918,937	\$ 1,102,745	\$ 16,771,485

Table 11 summarizes the proprietary fund fixed assets of enterprise funds and internal service funds, and the fixed assets of the discretely presented component units as of June 30.

Table 11

Schedule of Fixed Assets for Proprietary Funds and Discretely Presented Component Units

June 30, 1998
(Amounts in thousands)

Primary Government	Enterprise	Internal Service
State water projects.....	\$ 4,104,730	\$ —
Toll facilities.....	1,073,095	—
Other land, improvements, buildings and equipment.....	934,982	984,357
Construction in progress.....	616,702	2,919
Total Primary Government Fixed Assets.....	6,729,509	987,276
Less: accumulated depreciation.....	1,835,419	526,511
Net Primary Government Fixed Assets.....	\$ 4,894,090	\$ 460,765

Discretely Presented Component Units	University of California	Special Purpose Authorities
Real estate		
Buildings and improvements.....	\$ 7,869,164	\$ 547,530
Land.....	262,393	43,767
Furniture and equipment.....	3,255,252	132,764
Libraries and collections.....	2,227,022	—
Construction in progress.....	957,079	808
Total Discretely Presented Component Unit Fixed Assets..	14,570,910	724,869
Less: accumulated depreciation.....	—	143,219
Net Discretely Presented Component Unit Fixed Assets.....	\$ 14,570,910	\$ 581,650

NOTE 8.

LONG-TERM OBLIGATIONS

As of June 30, the primary government had long-term obligations totaling \$23.0 billion. These obligations are not expected to be financed from current resources in the governmental funds. Long-term obligations consist of the liability for employees' compensated absences, certificates of participation and commercial paper, long-term capital lease obligations, unmatured general obligation bonds, unmatured revenue bonds, and other liabilities. These other liabilities consist of \$677 million for workers' compensation claims, \$634 million for net pension obligations, \$270 million owed for lawsuits, and the University of California pension liability of \$103 million. These other liabilities do not have any required payment schedules, or will be paid when funds are appropriated. Of the total long-term obligations outstanding, 94% will be paid by the General Fund and 6% by special revenue funds. The changes in the General Long-Term Obligations Account Group during the year ended June 30, 1998, are summarized in Table 12.

Table 12
Schedule of Changes in General Long-Term Obligations
 (Amounts in thousands)

	Balance July 1, 1997	Additions	Deductions	Balance June 30, 1998
Compensated absences payable.....	\$ 1,066,491	\$ 593,857	\$ 656,388	\$ 1,003,960
Certificates of participation and commercial paper....	903,750	1,872,491	1,634,730	1,141,511
Capital lease obligations.....	2,964,285	704,483	121,901	3,546,867
General obligation bonds payable.....	14,208,431	1,669,029	983,370	14,894,090
Revenue bonds payable.....	569,525	201,970	12,055	759,440
Other liabilities.....	1,653,906	308,142	277,368	1,684,680
Totals.....	\$ 21,366,388	\$ 5,349,972	\$ 3,685,812	\$ 23,030,548

NOTE 9.**COMPENSATED ABSENCES**

As of June 30, the estimated liability for compensated absences related to accumulated vacation and annual leave totaled approximately \$1.5 billion. Of this amount, \$1.0 billion is reported in the General Long-Term Obligations Account Group, \$61 million is reported in the proprietary fund types, \$120 million is reported in the General Fund, and \$330 million is reported for the discretely presented component units.

NOTE 10.**CERTIFICATES OF PARTICIPATION**

Debt service requirements for certificates of participation, which are financed by lease payments from the special revenue funds and the General Fund, are shown in Table 13.

Table 13
Schedule of Debt Service Requirements for Certificates of Participation - Primary Government
 (Amounts in thousands)

Year Ending June 30	Principal	Interest	Total
1999.....	\$ 7,643	\$ 6,303	\$ 13,946
2000.....	7,515	6,729	14,244
2001.....	7,644	6,252	13,896
2002.....	7,395	6,487	13,882
2003.....	7,645	6,224	13,869
Thereafter.....	78,443	62,753	141,196
Total.....	\$ 116,285	\$ 94,748	\$ 211,033

Debt service requirements for certificates of participation for the University of California, a discretely presented component unit, are shown in Table 14.

Table 14

Schedule of Debt Service Requirements for Certificates of Participation - University of California - Discretely Presented Component Unit
(Amounts in thousands)

Year Ending June 30	Principal	Interest	Total
1999.....	\$ 7,820	\$ 13,376	\$ 21,196
2000.....	8,285	12,767	21,052
2001.....	8,960	12,221	21,181
2002.....	7,645	11,806	19,451
2003.....	8,070	11,392	19,462
Thereafter.....	198,520	111,094	309,614
Total.....	\$ 239,300	\$ 172,656	\$ 411,956

Current Year Defeasance: On October 30, 1997, the primary government issued approximately \$51 million in refunding certificates of participation to advance refund approximately \$48 million of outstanding 1991 certificates. The net proceeds of approximately \$50 million (after payment of approximately \$1 million in underwriting fees and other issuance costs) together with other available monies of approximately \$1 million were deposited into an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded certificates. As a result, the refunded certificates are considered to be defeased and the liability for those certificates has been removed from the General Long-Term Obligations Account Group. The primary government advance refunded the 1991 certificates to reduce its total debt service payments over the next 19 years by approximately \$30 million and to obtain an economic gain (the difference between the present value of the debt service payments on the old and new debt) of approximately \$3 million.

Prior Year Defeasance: In prior years, the primary government has defeased certificates of participation by placing the proceeds of new certificates in an irrevocable trust account to provide for all future debt service payments on the old certificates. Accordingly, the assets of the trust accounts and the liability for the defeased certificates are not included in the State's financial statements. At June 30, 1998, approximately \$21 million of certificates of participation outstanding are considered defeased.

NOTE 11.

COMMERCIAL PAPER AND OTHER BORROWINGS

The primary government has two commercial paper borrowing programs: a general obligation commercial paper program of up to \$1.5 billion and an enterprise fund commercial paper program for the Department of Water Resources of up to \$150 million. Under these programs, commercial paper may be issued at prevailing rates for periods not to exceed 270 days from the date of issuance.

To provide liquidity for the programs, a revolving credit agreement has been entered into with commercial banks equal to the authorized amount of commercial paper. The general obligation commercial paper program was increased to \$1.8 billion on July 15, 1997. On October 22, 1997, the general obligation commercial paper program had \$1.6 billion in outstanding commercial paper notes, the largest outstanding balance to date.

A new agreement was negotiated in March 1998, replacing the July 1997 agreement. The current agreement set the \$1.5 billion limit on the general obligation commercial program. As of June 30, 1998, there were borrowings of \$1.0 billion of general obligation commercial paper and \$29 million of enterprise fund commercial paper outstanding.

The proceeds from the issuance of commercial paper are restricted primarily to construction costs of general obligation bond program projects and of certain water projects. Because the general obligation commercial paper is retired by long-term general obligation debt, it is recorded in the General Long-Term Obligations Account Group.

The University of California, a discretely presented component unit, has mortgages and other borrowings consisting of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. The mortgages are secured by real property. Included in mortgages and other borrowings, which total approximately \$292 million, are various unsecured financing agreements with commercial banks that total approximately \$106 million.

The University of California established a \$550 million commercial paper program with tax-exempt and taxable components. The program is supported by a revolving line of credit and term loan agreement with a syndicate of banking institutions. Commercial paper has been issued to provide for interim financing of construction and related equipment and medical center working capital requirements. Commercial paper is not secured by any encumbrance, mortgage, or other pledge of property and does not constitute a general obligation of the University of California Regents. At June 30, 1998, outstanding tax-exempt and taxable commercial paper was \$430 million and \$120 million, respectively.

NOTE 12.

LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30 is approximately \$7.2 billion. This amount does not include any future escalation charges for real estate taxes and operating expenses. Most primary government leases are classified as operating leases, in accordance with the applicable standards, and contain clauses providing for termination. It is expected that in the normal course of business most of these operating leases will be replaced by similar leases.

The total present value of minimum lease payments for the primary government is composed of approximately \$3.5 billion in the General Long-Term Obligations Account Group and \$24 million in internal service funds. Lease expenditures for the year ended June 30 amounted to approximately \$583 million.

Included in the capital lease commitments are lease-purchase agreements that certain state agencies have entered into with the State Public Works Board, an enterprise fund agency, amounting to a present value of net minimum lease payments of \$3.3 billion. This amount represents 94% of the total present value of minimum lease payments of the primary government. Also included in the capital lease commitments are some lease-purchase agreements to acquire electronic data processing and other equipment.

The capital lease commitments do not include \$319 million of lease-purchase agreements with building authorities that are blended component units. These building authorities acquire or develop office buildings and then lease the facilities to state agencies. Upon expiration of the leases, title will pass to the primary government. The costs of the buildings are reported in the General Fixed Assets Account Group and the revenue bonds and certificates of participation outstanding associated with the buildings are reported in the General Long-Term Obligations Account Group. Accordingly, the lease receivables or capital lease obligations associated with these buildings are not included in the financial statements pursuant to GASB Statement No. 14.

Future minimum lease commitments of the primary government are summarized in Table 15.

Table 15

Schedule of Future Minimum Lease Commitments - Primary Government
(Amounts in thousands)

Year Ending June 30	Operating Leases	Capital Leases		Total
		General Long-Term Obligations	Internal Service Funds	
1999.....	\$ 207,022	\$ 378,225	\$ 4,505	\$ 589,752
2000.....	141,992	405,818	4,543	552,353
2001.....	107,879	384,215	4,547	496,641
2002.....	62,533	374,617	4,548	441,698
2003.....	40,273	376,697	4,491	421,461
2003.....	111,638	4,580,570	8,509	4,700,717
Thereafter.....	\$ 671,337	6,500,142	31,143	\$ 7,202,622
Total Minimum Lease Payments.....		2,953,275	7,616	
Less amount representing interest.....		\$ 3,546,867	\$ 23,527	
Present Value of Net Minimum Lease Payments.....				

The aggregate amount of discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 1998, is approximately \$2.5 billion. Table 16 presents the future minimum lease commitments for the University of California and the special purpose authorities, as of June 30. Operating lease expenditures for the year ended June 30 amounted to approximately \$128 million for discretely presented component units.

Table 16

Schedule of Future Minimum Lease Commitments - Discretely Presented Component Units
(Amounts in thousands)

Year Ending June 30	University of California		Special Purpose Authorities	Total
	Capital	Operating	Operating	
1999.....	\$ 132,597	\$ 91,929	\$ 18,640	\$ 243,166
2000.....	121,715	37,832	13,421	172,968
2001.....	116,881	31,125	11,423	159,429
2002.....	107,566	24,548	6,962	139,076
2003.....	104,774	19,502	6,303	130,579
2003.....	1,549,873	95,437	5,891	1,651,201
Thereafter.....	2,133,406	\$ 300,373	\$ 62,640	\$ 2,496,419
Total Minimum Lease Payments.....		848,422		
Less amount representing interest.....		\$ 1,284,984		
Present Value of Net Minimum Lease Payments.....				

NOTE 13.

COMMITMENTS

The primary government has made commitments of \$2.9 billion for certain highway construction projects. These commitments are not included in the reserve for encumbrances in the special revenue

funds because the future expenditures related to these commitments are expected to be reimbursed from local governments and proceeds of approved federal grants. The ultimate liability will not accrue to the State.

As of June 30, the primary government had other commitments totaling \$1.6 billion that are not included as a liability on the balance sheet. These commitments included loan and grant programs for housing, school building aid, and rail system construction totaling approximately \$659 million. The total commitments also include approximately \$15 million for the rehabilitation of toll bridge facilities, approximately \$761 million for the construction of water projects and the purchase of power, and up to \$162 million for the operation and maintenance of the lottery's automated gaming system. The commitments are expected to be funded from existing program resources and from the proceeds of revenue and general obligation bonds to be issued.

As of June 30, the University of California, a discretely presented component unit, had authorized construction projects totaling \$1.5 billion. Special purpose authorities, which are discretely presented component units, had outstanding commitments to provide \$405 million for loans under various housing revenue bond programs.

NOTE 14.**GENERAL OBLIGATION BONDS**

The State Constitution permits the primary government to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds majority of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used first to support the public school system and public institutions of higher education. The General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service provided on their behalf.

General obligation bonds that are directly related to, and expected to be paid from, the resources of enterprise funds are included within the accounts of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

As of June 30, \$6.3 billion of general obligation bonds had been authorized but not issued. This amount includes \$3.1 billion that has been authorized by the applicable finance committee for future issuance in the form of commercial paper notes. Of this amount, \$1.0 billion in general obligation indebtedness has been issued in

the form of commercial paper notes, but not yet retired by long-term bonds.

Table 17 summarizes the changes in general obligation bond debt for the year ended June 30.

Table 17

Schedule of Changes in General Obligation Bond Debt
(Amounts in thousands)

	General Long-Term Obligations	Enterprise Funds	Total
Balance, July 1, 1997.....	\$ 14,208,431	\$ 3,745,595	\$ 17,954,026
Additions.....	1,669,029	447,535	2,116,564
Deductions.....	(983,370)	(176,265)	(1,159,635)
Balance, June 30, 1998.....	\$ 14,894,090	\$ 4,016,865	\$ 18,910,955

Table 18 shows the debt service requirements for all general obligation bonds, including interest of \$11.2 billion, as of June 30, 1998.

Table 18

Schedule of General Obligation Bonds Debt Service Requirements
(Amounts in thousands)

Year Ending June 30	General Long-Term Obligations	Enterprise Funds
1999.....	\$ 1,904,628	\$ 433,473
2000.....	1,830,777	389,465
2001.....	1,768,043	375,619
2002.....	1,719,409	390,902
2003.....	1,631,451	353,510
Thereafter.....	14,300,505	5,012,885
Total.....	\$ 23,154,813	\$ 6,955,854

Current Year Defeasances: On February 18, 1998, the primary government issued approximately \$981 million in various purpose general obligation refunding bonds (the "1998 Bonds") for an advance refunding of approximately \$913 million in outstanding general obligation bonds maturing in years 2008 to 2025 (the "1998 Refunded Bonds"). The primary government invested the net proceeds of approximately \$985 million in U.S. government securities and placed the securities in an irrevocable trust to pay debt service on the 1998 Refunded Bonds. As a result, the 1998 Refunded Bonds are considered to be defeased and the liability for those bonds has been removed from the General Long-Term Obligations Account Group. This advance refunding was undertaken to reduce total debt service payments through

February 1, 2025, by approximately \$83 million and to obtain an economic gain (the difference between the present value of the debt service payments on the 1998 Bonds and the 1998 Refunded Bonds) of approximately \$49 million.

For the year ended June 30, 1998, the primary government issued approximately \$1.3 billion in general obligation bonds, portions of which were used to refund approximately \$754 million of outstanding general obligation bonds. Net proceeds were deposited in various escrow accounts held by the State Treasurer, as escrow trustee, to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the related liabilities have been removed from the financial statements.

The refunding will decrease the primary government's debt service payments by approximately \$147 million over the next 22 years. The refunding also resulted in an economic gain of approximately \$96 million.

Prior Year Defeasances: In prior years, the primary government has defeased certain bonds by placing the proceeds of new bonds in irrevocable escrow in a special trust account with the State Treasury to provide for all future debt service payments on the old bonds. Accordingly, the assets of the trust accounts and the liability for the defeased bonds are not included in the State's financial statements. At June 30, 1998, approximately \$269 million of general obligation bonds outstanding are considered defeased.

NOTE 15.

REVENUE BONDS

Revenue bonds that are directly related to, and expected to be paid from, the resources of enterprise funds are included within the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of the authorities and agencies listed in the next section of this note. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

Revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance are issued for Water Resources, California State University, and Leasing of Public Assets. Revenue bonds are also issued to make loans to finance the acquisition of farms and homes by California veterans. When the farm and home loans financed by the revenue bonds are fully paid, the farms and homes become the property of private individuals.

Certain building authorities, under state law, may issue revenue bonds. These revenue bonds are included in the General Long-Term Obligations Account Group. These bonds are issued for the purpose of acquiring and constructing buildings for public education

purposes and for the purpose of constructing state office buildings. Leases with state agencies pay the principal and interest on the revenue bonds issued by the building authorities. The primary government has no legal liability for the payment of principal and interest on these revenue bonds.

The University of California, a discretely presented component unit, issues revenue bonds to finance the construction, renovation, and acquisition of certain facilities and equipment.

Under state law, a special purpose authority, which is a discretely presented component unit, issues revenue bonds to make loans to finance housing developments and to finance the acquisition of homes by low to moderate income families. When the housing developments and home loans are fully paid, the housing developments and homes become the property of private individuals or entities.

Table 19 shows revenue bonds outstanding as of June 30.

Table 19

Schedule of Revenue Bonds Outstanding

June 30, 1998
(Amounts in thousands)

Primary Government

Enterprise Funds

Housing Loan.....	\$ 275,055
Water Resources.....	2,381,543
California State University.....	499,233
Leasing of Public Assets.....	5,633,179
Total Enterprise Funds.....	8,789,010

General Long-Term Obligations

Building Authorities

California State University.....	30,680
Los Angeles.....	162,645
San Francisco.....	394,825
Oakland.....	157,820
Riverside.....	13,470
Total General Long-Term Obligations.....	759,440

Total Primary Government..... **9,548,450**

Discretely Presented Component Units

University of California.....	2,184,171
Special Purpose Authorities.....	5,679,927
Total Discretely Presented Component Units.....	7,864,098
Total.....	\$ 17,412,548

Table 20 shows the debt service requirements as of June 30, 1998. The debt service requirements primarily represent bond principal payments. Table 20 also includes certain unamortized refunding costs, premiums, discounts, and other costs not included in Table 19.

Table 20**Schedule of Revenue Bond Debt Service Requirements**

(Amounts in thousands)

Year Ending June 30	Primary Government		Discretely Presented Component Units
	General Long-Term Obligations	Enterprise Funds	
1999.....	\$ 11,360	\$ 391,513	\$ 132,128
2000.....	23,895	328,768	149,786
2001.....	25,710	357,434	162,882
2002.....	26,905	329,625	181,052
2003.....	28,135	328,167	196,191
Thereafter.....	643,435	7,405,403	7,055,097
Total.....	\$ 759,440	\$ 9,140,910	\$ 7,877,136

Current Year Defeasances: For the year ended June 30, 1998, the primary government issued approximately \$10 million in revenue bonds for Leasing of Public Assets to advance refund approximately \$10 million of outstanding lease revenue bonds. The net proceeds were deposited into various escrow accounts held by the State Treasurer, as escrow trustee, to provide for all future debt service payments on the above noted refunded bonds. As a result, the refunded bonds listed are considered to be defeased and the liability for those bonds has been removed from the financial statements. The advance refunding reduced the primary government's aggregate debt service by \$0.5 million over the next 4 years and resulted in an economic gain of \$0.4 million.

The primary government also issued approximately \$505 million in revenue bonds for Leasing of Public Assets to advance refund approximately \$506 million of outstanding lease revenue bonds. The net proceeds of approximately \$507 million (after payment of approximately \$6 million in underwriter discount, original bond discount, insurance, and other bond issuance costs and receipt of approximately \$8 million for original bond premium), together with other available moneys of \$25 million were deposited in various escrow accounts held by the State Treasurer, as escrow trustee, to provide for all future debt service payments on the above noted refunded bonds. As a result, the refunded bonds listed are considered to be defeased and the liability for those bonds has been removed from the financial statements. The advance refunding reduced the primary government's aggregate debt service payments by \$33 million over the next 23 years and resulted in an economic gain of \$20 million.

For the year ended June 30, 1998, the primary government issued approximately \$275 million of Home Purchase Revenue bonds, portions of which were used to refund approximately \$235 million of outstanding Home Purchase Revenue bonds. Net proceeds were deposited in various escrow accounts held by the State Treasurer,

as escrow trustee, to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the related liabilities have been removed from the financial statements.

The refunding will decrease the primary government's debt service payments by approximately \$67 million over the next 22 years. The refunding also resulted in an economic gain of approximately \$37 million.

In August 1997, the primary government issued \$200 million in Central Valley Project (CVP) Revenue Bonds – Series S, a portion of which was used to advance refund \$99 million of outstanding bonds. In August 1997, the primary government issued \$134 million in CVP Revenue Bonds – Series T, a portion of which was used to advance refund \$143 million of outstanding bonds in March 1998, the earliest redemption date of the refunded bonds.

The net proceeds of the advance refundings (after payment of underwriting refunding fees, other issuance costs, and deposits to the Debt Service Reserve Accounts) were used to purchase securities that were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance refunded bonds. As a result, the advance refunded bonds are considered to be defeased and the related liabilities have been removed from the financial statements.

Although the fiscal year 1997-1998 advance refunding resulted in the recognition of an accounting loss of \$7 million, the primary government effectively reduced its aggregate debt service payments by approximately \$44 million over the next 31 years and obtained an economic gain of \$21 million.

On April 1, 1998, the primary government issued San Diego State University Student Union Series C refunding bonds of \$20 million to provide for the advance refunding of all but \$13 million of the San Diego State University Student Union Series B bonds. The net proceeds are invested by the State Treasurer in United States government securities until the bonds are redeemed. Those securities are deposited in an irrevocable trust with the State Treasurer to provide debt service payments on Series B bonds prior to their full redemption on November 1, 2004.

As of June 30, 1998, all but \$13 million of Series B bonds are considered defeased, and the liability of \$18 million for those bonds has been removed from the financial statements. The refinancing results in total savings over the life of the issue of \$1 million which equates to an economic gain of \$0.7 million.

On April 1, 1998, the primary government issued California State University (CSU), Northridge Student Union Series C refunding bonds of \$11 million to provide funds for the advance refunding of all but \$3 million of the CSU-Northridge Student Union Series B

bonds. The net proceeds are invested by the State Treasurer in United States government securities until the bonds are redeemed. Those securities are deposited in an irrevocable trust with the State Treasurer to provide debt service payments of Series B bonds prior to their full redemption on November 1, 2002.

As of June 30, 1998, all but \$3 million of Series B bonds are considered defeased, and the liability of \$10 million for those bonds has been removed from the financial statements. The refinancing results in total savings over the life of the issue of \$1 million which equates to an economic gain of \$0.6 million.

In November 1997, the University of California, a discretely presented component unit, issued \$284 million of Multiple Purpose Projects Refunding Revenue Bonds with a weighted average interest rate of 5.3% to advance refund and defease \$283 million of outstanding Multiple Purpose Projects Revenue Bonds with a weighted average interest rate of 6.3%. The entire net bond proceeds of \$284 million, together with an additional \$19 million of other University funds, were used to purchase United States government securities sufficient to fund retirement of the specified obligations.

In March 1998, the University of California issued \$138 million of Research Facility Revenue Bonds with a weighted average interest rate of 5.1% to finance the acquisition, construction, and equipping of certain research facilities and to advance refund and defease \$93 million of outstanding Research Facilities Revenue Bonds with a weighted average interest rate of 6.4%. Bond proceeds totaling \$89 million, together with an additional \$11 million of other University funds, were used to purchase United States government securities sufficient to fund retirement of the specified obligations. Bond proceeds of \$49 million were applied to repay interim tax-exempt commercial paper financing incurred prior to the issuance of the bonds, fund additional construction expenditures, and pay costs of issuance.

The University of California defeasances resulted in an increase of fund balance of \$3 million for the year ended June 30, 1998 and is included in "Debt Extinguishment" in the Combined Statement of Changes in Fund Balances. The refunding reduced aggregate debt service payments by \$91 million over the next 27 years and the University was able to obtain an economic gain of \$23 million.

For the year ended June 30, 1998, the California Housing Finance Agency (CHFA), a discretely presented component unit, issued \$273 million of single family and multifamily housing bonds, portions of which were used to redeem \$272 million in outstanding single family and multifamily housing bonds. The CHFA considered these debt refundings to be an in-substance defeasance and accordingly, removed the redeemed bonds and related assets from the financial statements.

The refunding will decrease the debt service cash flow for the housing bonds by approximately \$36 million. The refunding also resulted in an economic gain of approximately \$29 million.

Prior Year Defeasances: In prior years, the primary government defeased certain bonds by placing the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service requirements. Accordingly, the assets and liabilities for these defeased bonds are not included in the financial statements. As of June 30, 1998, \$1.7 billion of revenue bonds outstanding are considered defeased.

In prior years, the University of California, a discretely presented component unit, defeased certain bonds. As of June 30, 1998, \$837 million of University of California revenue bonds outstanding are considered defeased.

NOTE 16.**MAJOR TAX REVENUES**

Tax revenues for the year ended June 30, are presented in Table 21.

Table 21**Schedule of Major Tax Revenues**

Year Ended June 30, 1998
(Amounts in thousands)

	General Fund	Special Revenue Funds	Expendable Trust Funds
Personal income.....	\$ 27,858,619	\$ —	\$ —
Sales and use.....	17,564,572	3,740,212	—
Bank and corporation.....	5,601,526	—	—
Unemployment insurance.....	—	—	3,115,985
Disability insurance.....	—	—	1,203,761
Insurance.....	1,221,541	—	—
Inheritance, estate, and gift.....	864,680	—	—
Cigarette and tobacco.....	163,316	485,246	—
Other.....	300,919	218,939	42,194
Total.....	\$ 53,575,173	\$ 4,444,397	\$ 4,361,940

NOTE 17.**FUND EQUITY****A. Fund Deficits**

The following funds had deficits at June 30, as shown in Table 22.

Table 22**Schedule of Fund Deficits**

June 30, 1998

(Amounts in thousands)

	Capital Projects Funds	Enterprise Funds	Internal Service Funds	Discretely Presented Component Units
Higher Education Construction.....	\$ 28,002	\$ —	\$ —	\$ —
East Bay Building Authority.....	1,339	—	—	—
Los Angeles Building Authority.....	6,211	—	—	—
Health Facilities Construction				
Loan Insurance.....	—	103,652	—	—
Water Resources Revolving.....	—	—	14,764	—
Architecture Revolving.....	—	—	6,784	—
California Urban Waterfront Area				
Restoration Finance Authority.....	—	—	—	862
Total.....	\$ 35,552	\$ 103,652	\$ 21,548	\$ 862

**B. Changes to
Contributed Capital**

The changes in the State's contributed capital accounts are shown in Table 23.

Table 23**Schedule of Changes in Contributed Capital**

(Amounts in thousands)

Sources	Enterprise	Internal Service	Discretely Presented Component Units	Total
Balance, July 1, 1997.....	\$ 216,247	\$ 112,326	\$ 99	\$ 328,672
Government contributions.....	—	231,993	—	231,993
Fund dissolution.....	(21,014)	—	—	(21,014)
Other decreases.....	—	(135)	—	(135)
Balance, June 30, 1998.....	\$ 195,233	\$ 344,184	\$ 99	\$ 539,516

NOTE 18.**RISK MANAGEMENT**

The primary government has elected, with a few exceptions, to be self-insured against loss or liability. Generally, the exceptions are when a bond resolution or a contract requires the primary government to purchase commercial insurance for coverage against property loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, there has

been no insurance settlement in the last three years that has exceeded insurance coverage. The primary government generally does not maintain reserves. Losses are covered by appropriations from each fund responsible for payment in the year in which the payment occurs. All claim payments are on a "pay as you go" basis. The potential amount of loss arising from risks other than workers' compensation benefits are not considered material in relation to the primary government's financial position.

Workers' compensation benefits for self-insured agencies are initially paid by the SCIF. The liability for future workers' compensation claims against the primary government's self-insured agencies is estimated to be approximately \$886 million as of June 30. The liability represents the estimated total cost of all open and known disability claims as of June 30, including claims incurred but not reported. The estimates are based on established claims criteria such as age of the injured, occupation, and type of injury. Of the total, \$118 million is included in the General Fund, \$73 million in the special revenue fund type, \$18 million in the proprietary fund types, and \$677 million in the General Long-Term Obligations Account Group. Changes in the claims liabilities during the year ended June 30 are shown in Table 24.

The University of California, a discretely presented component unit, is self-insured for medical malpractice, workers' compensation, employee health care, and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. The estimated liabilities are based upon an independent actuarial determination of the anticipated future payments, discounted at rates ranging from 6.5% to 8.0%. The special purpose authorities, which are discretely presented component units, do not have any significant liabilities related to self insurance.

Table 24**Schedule of Changes in the Self Insurance Claims**

Years Ended June 30

(Amounts in thousands)

	Primary Government		University of California – Discretely Presented Component Unit	
	1998	1997	1998	1997
Unpaid claims, beginning.....	\$ 869,000	\$ 733,000	\$ 324,800	\$ 368,000
Incurred claims.....	240,000	341,000	173,800	127,900
Claim payments.....	(223,000)	(205,000)	(179,300)	(171,100)
Unpaid claims, ending.....	\$ 886,000	\$ 869,000	\$ 319,300	\$ 324,800

NOTE 19.**SEGMENT INFORMATION**

Selected financial information by enterprise fund activity for major segments is shown in Table 25. The primary sources of enterprise fund revenues are as follows.

Housing Loan: Interest charged on contracts of sale of properties to California veterans and to California National Guard members; loan origination fees; and interest on investments.

Water Resources: Charges to local water districts, sale of excess power to public utilities, and interest earned on investments.

School Building Aid: Interest charged on loans to school districts for acquisition, construction, or rehabilitation of classroom facilities; and income from the rental of portable classrooms to school districts.

Toll Facilities: Toll fees and interest earned on investments.

California State University: Charges to students for housing and parking; student fees for campus unions, health centers, and self-supporting educational programs; and interest earned on investments.

Leasing of Public Assets: Rental charges from the lease of public assets and interest earned on investments.

State Lottery: Sale of lottery tickets.

Health Facilities Construction Loan Insurance: Construction project fees and income from operations or proceeds of sales of property acquired by default of borrowers.

Public Employees' Benefits: Contributions for public employee long-term care plans and fees for managing a deferred compensation program.

Other Enterprise: Canteen revenues and fees charged by various other departments.

Table 25

Schedule of Enterprise Fund Activity by Separate Major Segments

As of and for the Year Ended June 30, 1998

(Amounts in thousands)

	Housing Loan	Water Resources	School Building Aid	Toll Facilities	California State University	Leasing of Public Assets	State Lottery	Health Facilities Construction Loan Insurance	Public Employees' Benefits	Other Enterprise
Operating revenue.....	\$ 250,819	\$ 560,017	\$ 26,214	\$ 145,394	\$ 283,289	\$ 386,923	\$ 2,294,424	\$ 9,634	\$ 113,211	\$ 120,771
Depreciation.....	727	66,460	3,720	17,351	—	—	10,914	—	—	19
Amortization of deferred charges	—	12,529	—	430	—	5,826	2,454	—	—	—
Operating income (loss).....	671	150,042	9,824	95,808	60,125	(22,806)	785,812	384	(18,871)	(56)
Operating transfers in.....	8,441	—	—	—	1,307	7,122	—	—	—	8,104
Operating transfers out.....	8,441	—	80,094	4,153	26,101	7,123	—	—	—	6,090
Net income (loss).....	5,558	(22,463)	(70,270)	106,421	30,705	(22,807)	—	15,712	12,118	17,876
Grants received.....	—	—	—	—	329	—	—	—	—	—
Grants provided.....	—	—	—	26,890	—	—	—	—	—	—
Property, plant, and equipment										
Additions.....	1,513	4,840	—	82,793	30,487	303,473	8,420	—	—	—
Deductions.....	727	66,460	3,720	17,351	—	—	11,485	—	—	44
Net working capital.....	1,520,573	118,144	(10,067)	690,629	473,387	627,340	3,194,523	133,184	225,475	99,944
Total assets.....	3,643,638	4,934,052	303,448	1,330,388	1,308,892	5,894,030	3,519,459	142,165	230,881	464,042
Bonds and other long-term liabilities.....	3,290,718	3,415,473	3,750	6,160	510,070	5,633,179	3,244,776	244,859	211,523	49,226
Total Equity (Deficit).....	293,942	1,096,428	247,422	1,303,925	710,730	127,341	—	(103,652)	13,952	283,865

NOTE 20.

**CONDENSED FINANCIAL STATEMENTS -
DISCRETELY PRESENTED COMPONENT UNITS**

Tables 26 and 27 present summary financial statements of the special purpose authorities, which are the SCIF, the CHFA, and Non-Major Component Units. The financial statements of the University of California, a discretely presented component unit, are presented separately in the combined statements of this report.

The SCIF is a component unit created to offer insurance protection to employers at the lowest possible cost. This information is as of and for the year ended December 31, 1997. The CHFA was created for the purpose of meeting the housing needs of persons and families of low and moderate income. The Non-Major Component Units provide certain services that are not part of the primary government and also provide certain private and public entities with a low-cost source of financing for activities that are deemed to be in the public interest.

Table 26

**Condensed Balance Sheet – Special Purpose Authorities –
Discretely Presented Component Units**

June 30, 1998

(Amounts in thousands)

	State Compensation Insurance	California Housing Finance Agency	Non-Major Component Units	Total
Assets				
Due from primary government.....	\$ —	\$ —	\$ 2,564	\$ 2,564
Other current assets.....	1,366,938	400,006	148,282	1,915,226
Investments.....	6,211,973	1,352,630	65,875	7,630,478
Advances and loans receivable.....	—	4,768,258	—	4,768,258
Fixed assets.....	234,410	—	347,240	581,650
Total Assets.....	\$ 7,813,321	\$ 6,520,894	\$ 563,961	\$ 14,898,176
Liabilities				
Other current liabilities.....	\$ 1,236,137	\$ 337,362	\$ 25,668	\$ 1,599,167
Benefits payable.....	4,684,083	—	—	4,684,083
Revenue bonds payable.....	—	5,578,485	101,442	5,679,927
Contracts and notes payable..	—	—	3,928	3,928
Total Liabilities.....	5,920,220	5,915,847	131,038	11,967,105
Fund Equity				
Contributed capital.....	—	—	99	99
Retained earnings				
Reserved for regulatory requirements.....	—	548,700	—	548,700
Unreserved.....	1,893,101	56,347	432,824	2,382,272
Total Fund Equity.....	1,893,101	605,047	432,923	2,931,071
Total Liabilities and Fund Equity.....	\$ 7,813,321	\$ 6,520,894	\$ 563,961	\$ 14,898,176

Table 27

Condensed Statement of Revenues, Expenses, and Changes in Retained Earnings – Special Purpose Authorities – Discretely Presented Component Units

Year Ended June 30, 1998
(Amounts in thousands)

	State Compensation Insurance	California Housing Finance Agency	Non-Major Component Units	Total
Operating Revenues				
Earned premiums (net).....	\$ 1,052,835	\$ —	\$ —	\$ 1,052,835
Other revenue.....	45,034	373,634	165,000	583,668
Total Operating Revenues.....	1,097,869	373,634	165,000	1,636,503
Operating Expenses				
Depreciation.....	7,219	465	4,328	12,012
Benefit payments.....	1,263,074	—	—	1,263,074
Interest expense.....	—	343,967	2,062	346,029
Amortization of deferred charges.....	145,847	1,313	—	147,160
Other operating expenses.....	68,690	48,752	155,983	273,425
Total Operating Expenses.....	1,484,830	394,497	162,373	2,041,700
Operating Income (Loss).....	(386,961)	(20,863)	2,627	(405,197)
Nonoperating Revenues (Expenses)				
Interest revenue.....	620,557	106,220	4,305	731,082
Dividends paid.....	(73,012)	—	—	(73,012)
Other nonoperating revenues (expenses).....	—	—	941	941
Net Nonoperating Revenues (Expenses).....	547,545	106,220	5,246	659,011
Net Income.....	160,584	85,357	7,873	253,814
Retained Earnings, July 1, 1997.....	1,732,517	519,690	424,951	2,677,158
Retained Earnings, June 30, 1998.....	\$ 1,893,101	\$ 605,047	\$ 432,824	\$ 2,930,972

NOTE 21.**NO COMMITMENT DEBT**

Certain debt of the special purpose authorities, which are discretely presented component units, is issued to finance activities such as construction of new facilities and remodeling of existing facilities, as well as acquisition of equipment. This debt is collateralized solely by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, the special purpose authorities had \$13.0 billion of debt outstanding, which is not debt of the State.

The State has also entered into transactions which involve debt issued by three special purpose trusts that were created by another special purpose authority, called the California Infrastructure and

Economic Development Bank. The special purpose trusts are legally separate entities that issued long-term debt for the primary purpose of financing certain costs of assets and obligations that are recoverable by utilities through electric rate charges, but which may prevent the utilities from offering electricity at lower rates in a competitive market. As of June 30, the special purpose trusts had \$5.8 billion of debt outstanding. Similar to the debt of the special purpose authorities, the debt of the special purpose trusts is not a debt of the State.

NOTE 22.

CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which normally occur in governmental operations. The following were accrued as a liability in the financial statements: legal proceedings that were decided against the primary government before June 30, 1998; legal proceedings that were in progress as of June 30, 1998, and were settled or decided against the primary government as of November 20, 1998; and legal proceedings having a high probability of resulting in a decision against the primary government as of November 20, 1998, and for which amounts could be estimated. For governmental fund types and expendable trust funds, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made; the remainder is shown as a liability of the General Long-Term Obligations Account Group. For other fund types, the entire liability is recorded in the fund involved. In addition, the primary government is involved in certain other legal proceedings that, if decided against the primary government, may require it to make significant future expenditures or may impair future revenue sources. Because of the prospective nature of these proceedings, no provision for this potential liability has been made in the financial statements.

Following are the more significant lawsuits pending against the primary government:

Northern California 1997 Flood Litigation: In January of 1997, California experienced major flooding in six different areas with preliminary estimates of property damage of approximately \$1.6 to \$2 billion. To date, three lawsuits have been filed. The anticipated number of lawsuits has not materialized. The exposure arising from the floods is not expected to exceed \$100 million.

The primary government is a defendant in *Ceridian Corporation v. Franchise Tax Board*, a suit which challenges the validity of two sections of the California Tax laws. The first relates to deduction from corporate taxes for dividends received from insurance companies to the extent the insurance companies have California activities. The second relates to corporate deduction of dividends to the extent the earnings of the dividend paying corporation have already been included in the measure of their California tax. On

August 13, 1998, the court issued a judgment against the Franchise Tax Board on both issues. The Franchise Tax Board has appealed the judgment. If both sections of the California tax law are invalidated, and all dividends become deductible, in the future General Fund collections would be reduced annually in the \$200-\$250 million range for all taxpayers.

The primary government is involved in a lawsuit, *Thomas Hayes v. Commission on State Mandates*, related to state-mandated costs. The action involves an appeal by the Director of Finance from a 1984 decision by the State Board of Control (now succeeded by the Commission on State Mandates (COSM)). The Board of Control decided in favor of local school districts' claims for reimbursement for special education programs for handicapped students. The case was then brought to the trial court by the primary government and later remanded to the COSM for redetermination. The COSM has since expanded the claim to include supplemental claims filed by seven other educational institutions; a final hearing on the proposed statement of decision is scheduled for November 30, 1998. To date, the Legislature has not appropriated funds. The liability to the primary government, if all potentially eligible school districts pursue timely claims, has been estimated by the Department of Finance at more than \$1 billion.

The primary government is involved in a lawsuit related to contamination at the Stringfellow toxic waste site. In *United States, People of the State of California v. J. B. Stringfellow, Jr., et al.*, the primary government is seeking recovery for past costs of cleanup of the site, a declaration that the defendants are jointly and severally liable for future costs, and an injunction ordering completion of the cleanup. However, the defendants have filed a counterclaim against the primary government for alleged negligent acts, resulting in significant findings of liability against the primary government as owner, operator, and generator of wastes taken to the site. The primary government has appealed the rulings. Present estimates of the cleanup range from \$400 million to \$600 million.

The primary government is a defendant in a coordinated action involving 3,000 plaintiffs seeking recovery for damages caused by the Yuba River flood of February 1986. The trial court has found liability in inverse condemnation and awarded damages of \$500,000 to a sample of plaintiffs. The primary government's potential liability to the remaining plaintiffs ranges from \$800 million to \$1.5 billion. In 1992, the primary government and plaintiffs filed appeals; however, no hearing date has been set.

The primary government is a defendant in *Professional Engineers in California Government v. Wilson*. The petitioners are challenging several appropriations in the 1993, 1994, and 1995 Budget Acts. The appropriations mandate the transfer of approximately \$258 million from the State Highway Account, within the special revenue funds, and \$131 million from the Motor Vehicle Account, within the special revenue funds, to the General Fund and

appropriate approximately \$6 million from the State Highway Account to fund a highway-grade crossing program administered by the Public Utilities Commission. The petitioners are also challenging a \$130 million transfer from the State Highway Account to the Motor Vehicle Account. Petitioners contend that the transfers violate several constitutional provisions and request that the moneys be returned to the State Highway Account and Motor Vehicle Account.

The primary government is a defendant in *Just Say No To Tobacco Dough Campaign v. State of California*, where the petitioners challenge the appropriation of approximately \$166 million of Proposition 99 funds in the Cigarette and Tobacco Products Surtax Fund for years ended June 30, 1990, through June 30, 1995, for programs which were allegedly not health education or tobacco-related disease research. If the primary government loses, the General Fund and funds from other sources would be used to reimburse the Cigarette and Tobacco Products Surtax Fund, an agency fund, for approximately \$166 million.

The primary government is a defendant in an action, *Emily Q., et al., v. Belshe, et al.*, to compel a change in early screening procedures for children with mental health needs. The lawsuit is limited to Los Angeles County. The primary government has filed an answer in this case. An adverse outcome is possible with the potential liability of \$500 million per year.

The University of California and the special purpose authorities, which are discretely presented component units, are contingently liable in connection with claims and contracts, including those currently in litigation, arising in the normal course of their activities. The outcome of such matters is either not expected to have a material effect on the financial statements or cannot be estimated at this time.

**B. Federal Audit
Exceptions**

The primary government receives substantial funding from the federal government in the form of grants and contracts. The primary government is entitled to these resources only if it complies with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; the primary government may spend these resources only for eligible purposes. If audits disclose exceptions, the primary government may incur a liability to the federal government.

NOTE 23.

DEFERRED COMPENSATION PLANS

The primary government administers a long-term tax deferred savings program designed to supplement the retirement income of employees of the primary government, certain special purpose authorities, which are discretely presented component units, and local school districts. The special purpose authorities do not have a significant number of employees enrolled in the program. The program is comprised of a deferred compensation plan (457), and a

thrift plan (401(k)), in accordance with Sections 457, and 401(k), of the Internal Revenue Code. In addition, the program includes a mandatory retirement plan for employees covered by neither the California Public Employees' Retirement System (CalPERS) nor Social Security, called the Part-Time, Seasonal and Temporary Plan (PST).

The 457 and 401(k) plans are optional plans for eligible employees. Under these plans, employees defer a portion of their salary on a pre-tax basis. The deferred salary amounts as well as any earnings gained are not taxable to the employees until funds are withdrawn from the plans and received by the employees. Participant withdrawals are subject to various conditions set forth in plan documents. Generally, funds may not be withdrawn, except in cases of emergency, until the participant has retired or separated from civil service, or has reached the required age. Participants of the 457 and 401(k) plans direct the primary government to invest the deferred amounts among various investment options. The primary government makes no contribution to any of these plans and the cost of the program is paid through administrative fees by the program participants. The assets of the 401(k) plan are held for the participants in a trust.

On August 20, 1996, the Small Business Job Protection Act of 1996 was signed into law. Under the new law, assets of the 457 plan are protected from the claims of the employer's creditors. In order to comply with the new law, changes must be implemented to its plan document prior to January 1, 1999. Until such time, the assets held in the 457 plan remain the property of the primary government and continue to be subject to its general creditors.

The PST is a mandatory plan for employees who are not members of the primary government's retirement system and who are not covered by social security. The primary government invests PST participants' deferred amounts into an investment option of the primary government's choosing. The employer makes no contribution to the PST, but the administrative costs to run the PST are paid by the primary government.

The primary government has no liability for losses under the plans but does have the responsibility to administer the plans in good faith. As of June 30, the market value of the three plans was approximately \$3.3 billion for the 457, \$647 million for the 401(k), and \$63 million for the PST. The plans are accounted for as agency funds.

NOTE 24.**PENSION TRUSTS**

Two retirement systems, the California Public Employees' Retirement System (CalPERS) and the State Teachers' Retirement System (STRS), are included in the primary government. One retirement system, the University of California Retirement System

(UCRS), is included in the discretely presented component units. The pension liability for all pension trust funds was determined in accordance with GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers. The amounts of the pension liability for all pension trust funds are presented on Tables 29 and 30 as the net pension obligation (NPO) as of June 30, 1998. Information on the investments of the retirement systems is included in Note 3, Deposits and Investments.

CalPERS administers four defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Judges' Retirement Fund (JRF), the Judges' Retirement Fund II (JRF II), and the Legislators' Retirement Fund (LRF). CalPERS issues a publicly available financial report that includes financial statements and ten years of required supplementary information for these four plans. This report may be obtained by writing to the California Public Employees' Retirement System, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

CalPERS uses the accrual basis of accounting. Member contributions are recorded when due. Employer contributions are recorded when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due in accordance with the terms of each plan.

The State Teachers' Retirement System (STRS) administers two defined benefit retirement plans: Teachers' Retirement Fund (TRF) and the Cash Balance Plan (CBPlan). STRS also offers, through a third party administrator, a defined contribution plan that meets the requirements of the Internal Revenue Code Section 403(b). STRS issues a publicly available financial report that includes financial statements and required supplementary information on the plans. This report may be obtained from the State Teachers' Retirement System, Audits Division, 7667 Folsom Blvd., 2nd Floor, Sacramento, California 95826.

STRS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and primary government contributions are recognized when due and the employer or the primary government has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the retirement program.

**A. Public Employees'
Retirement Fund
1. Fund Information**

Plan Description: CalPERS administers the PERF, which is an agent multiple-employer retirement system. Employers participating in the PERF include the primary government and certain special purpose authorities, which are discretely presented component units, 61 school employers, and 1,304 public agencies as of June 30, 1998.

The excess of the actuarial value of assets over the actuarial accrued liability of PERF for the primary government and other participating agencies was \$10.6 billion at June 30, 1997. This is a result of the difference between the actuarial value of assets of \$108.5 billion and the actuarial accrued liability of \$97.9 billion. Contributions are actuarially determined.

2. Employer's Information

Plan Description: The primary government and certain special purpose authorities contribute to the PERF. The fund acts as a common investment and administrative agent of the primary government and the other member agencies. The special purpose authorities' participation in PERF is not a material portion of the program. The primary government has six pension plans within the PERF: first tier miscellaneous, second tier miscellaneous, industrial, California Highway Patrol, police officers and firefighters, and other safety members. The payroll for employees covered by the PERF in the year ended June 30, 1998, was approximately \$9.2 billion.

All employees who work on a half-time or more basis are eligible to participate in the CalPERS. The CalPERS administers several different plans, each providing benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five or ten years, depending on the plan. All plans provide death, disability, and survivor benefits. The benefit provisions are established by statute.

Funding policy: Benefits are funded by contributions from members and the primary government and earnings from investments. Member and primary government contributions are a percentage of applicable member compensation. Member rates are defined by law and based on the primary government's benefit formula. The primary government contribution rates are determined by periodic actuarial valuations or by state statute.

Employees, with the exception of employees in the second tier plan, are required to contribute to the fund. The contribution rates of active plan members are based on a percentage of salary over a monthly base compensation amount of \$238 to \$863. With the exception of employees in the second-tier plan, employees' required contributions vary from 5.0% to 8.0% of their salary over their base compensation amount.

The required employer contribution rates for the primary government are shown in Table 28.

Table 28**Schedule of Required Employer Contribution Rates for the Primary Government by Member Category**

Year Ending June 30, 1998

	Normal Cost	Unfunded Liability	Total Rate
Miscellaneous members			
First tier.....	9.92 %	2.78 %	12.70 %
Second tier.....	7.03	2.78	9.81
Industrial.....	10.57	(1.55)	9.02
California Highway Patrol.....	15.44	(0.06)	15.38
Police officers and firefighters.....	16.13	(0.89)	15.24
Other safety members.....	14.80	(1.18)	13.62

For the year ended June 30, 1998, the annual pension cost (APC) and the amount of contributions made for the primary government were each approximately \$1.2 billion. The APC and the percentage of APC contributed for the last three years are shown in Table 29. Actuarial valuations of the PERF are performed annually. Information from the last valuation, which was performed as of June 30, 1997, is also shown in Table 29.

B. Judges' Retirement Fund

Plan Description: CalPERS administers the JRF, which is an agent multiple-employer defined benefit retirement plan. The JRF membership includes justices of the Supreme Court and courts of appeal, as well as judges of superior courts, municipal courts, and justice courts appointed or elected prior to November 9, 1994. There are 59 employers participating in the JRF for the fiscal year ended June 30, 1998. The payroll for employees covered by the JRF for the fiscal year ended June 30, 1998, was approximately \$140 million. The primary government pays the employer contributions for all employees covered by the JRF.

All justices and judges appointed or elected prior to November 9, 1994, are required to participate in the JRF. The JRF provides benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF provides death, disability, and survivor benefits. Benefits for the JRF are established by the Judges' Retirement Law.

Funding Policy: The required contribution rates of active plan members are based on a percentage of salary over a base compensation amount. For the year ended June 30, 1998, the required contribution rate for the JRF was 8.0%.

The contributions of the JRF are not actuarially determined. Contributions are pursuant to state statute. Employer contributions are required to be 8.0% of applicable member compensation. The other funding to meet benefit payment requirements of the JRF is currently provided from the following sources: filing fees, which require varying amounts, depending on fee rate and number of

filings; investments, which earn the current yield on short term investments; and the primary government's balancing contributions, as required by the Judges' Retirement Law. The balancing contributions are equal to an amount at least equal to the estimated benefits payable during the ensuing fiscal year less the sum of the estimated member contributions during the ensuing fiscal year, and net assets available for benefits at the beginning of the fiscal year ("pay as you go" basis).

The APC and the amount of contributions made to the JRF for the year ended June 30, 1998, were \$133 million and \$56 million, respectively. The net pension obligation (NPO) of the JRF at June 30, 1998, was \$623 million, an increase of \$77 million over last year's balance of \$546 million. The APC is comprised of \$134 million for the annual required contribution (ARC), \$46 million interest on the NPO, and \$47 million for the adjustment to the ARC. An actuarial valuation of the JRF's assets and liabilities is made annually. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 29. Information on the last valuation, which was performed as of June 30, 1997, is also shown in Table 29. While the aggregate cost method that was used for the June 30, 1997, valuation does not identify or separately amortize the unfunded actuarial accrued liability, this liability, as shown on Table 29, was computed using the entry age normal method.

C. Judges' Retirement Fund II

Plan Description: CalPERS administers the JRF II, which is an agent multiple-employer defined benefit retirement plan. The membership of the JRF II includes justices of the same courts as covered by JRF who were appointed or elected on or subsequent to November 9, 1994. There are 59 employers participating in the JRF II. The payroll for employees covered by the JRF II for the fiscal year ending June 30, 1998, was approximately \$24 million. The primary government pays the employer contributions for all employees covered by the JRF II.

All justices and judges appointed or elected on or subsequent to November 9, 1994, are required to participate in the JRF II. JRF II provides benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF II provides death, disability, and survivor benefits. Benefits for the JRF II are established by the Judges' Retirement System II Law.

Funding policy: The required contribution rate of active plan members is based on a percentage of salary over a base compensation amount. For the year ended June 30, 1998, the required contribution rate for JRF II is 8.0%. For the year ended June 30, 1998, the primary government's contribution rate for the JRF II was 21.9% of applicable member compensation.

Actuarial valuations for the JRF II are required to be carried out annually. The legislated employer contribution rate will be adjusted

periodically as part of the annual Budget Act in order to maintain or restore the actuarial soundness of the fund.

For the fiscal year ended June 30, 1998, the annual pension cost (APC) and the amount of contributions made for the JRF II were both approximately \$5.4 million. The APC and the percentage of APC contributed for year ended June 30, 1998 are shown in Table 29. Information on the last valuation, which was performed as of June 30, 1997, is also shown in Table 29.

**D. Legislators'
Retirement
Fund**

Plan Description: CalPERS administers the LRF, which is a single-employer defined benefit retirement plan. The eligible membership of the LRF includes state legislators serving in the legislature prior to November 1, 1990, constitutional officers, and legislative statutory officers. The payroll for employees covered by the LRF in 1998 was approximately \$4 million.

The LRF provides benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The plan provides death, disability, and survivor benefits. Benefits for the LRF are established by the Legislators' Retirement Law.

The LRF is currently in transition. The number of legislators eligible to participate in the LRF is rapidly declining as incumbent legislators leave office and are replaced by new legislators who are not eligible to participate in the program. Eventually, the only active members in the LRF will be approximately 12 Constitutional Officers (including the Insurance Commissioner and members of the Board of Equalization) and approximately four Legislative Statutory Officers.

Funding Policy: The contribution requirements of the LRF are based on actuarially determined rates. An actuarial valuation of the LRF's assets and liabilities is required at least every two years. For the year ended June 30, 1998, the actual contributions made by employees were approximately 8.3% of covered payroll. For the year ended June 30, 1998, the primary government's funding rate was 18.81% of covered payroll and the actuarially determined rate was 53.96%, based on the June 30, 1996, actuarial valuation.

The APC and the amount of contributions made by the primary government to the LRF for the year ended June 30, 1998, were \$2.0 million and \$0.7 million, respectively. The NPO of the LRF at June 30, 1998, was \$11.4 million, an increase of \$1.3 million over last year's balance of \$10.1 million. The APC is comprised of \$2.0 million for the ARC, \$0.8 million interest on the NPO, and \$0.8 million for the adjustment to the ARC. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 29. An actuarial valuation of the LRF's assets and liabilities

is made annually. Information on the last valuation, which was performed as of June 30, 1997, is also shown in Table 29. While the aggregate cost method that was used for the June 30, 1997, valuation does not identify or separately amortize the unfunded actuarial accrued liability, this liability, as shown on Table 29, was computed using the entry age normal method.

E. Teachers' Retirement Fund

Plan Description: STRS administers the Teachers' Retirement Fund (TRF), a cost sharing multiple-employer defined benefit retirement plan, that provides pension benefits to teachers and certain other employees of the California public school system. Membership in the TRF is mandatory for all employees meeting the eligibility requirements. The TRF provides a benefit based on age, members' final compensation, and years of service. Vesting accrues after five years. In addition, the retirement plan provides benefits to members upon disability and to survivors upon the death of eligible members. The State Teachers' Retirement Law establishes the benefits for the TRF. At June 30, 1998, the TRF had approximately 1,157 contributing employers, approximately 423,000 plan members, and 154,000 benefit recipients. The primary government is a nonemployer contributor to the TRF. The payroll for employees covered by TRF in 1998 was approximately \$15.3 billion.

Funding policy: Benefits are funded by contributions from members, employers, the primary government, and earnings from investments. Member and employer contributions are a percentage of applicable member earnings. The State Teachers' Retirement Law governs member rates, employer contribution rates, and primary government contributions.

Contribution rates of members are 8.0% of applicable member earnings. The employer contribution rate is 8.25% of applicable member earnings. The primary government's contribution to the system under the California Education Code Section 22955, "Elder Full Funding Act", is 4.3% of the previous calendar year's member payroll. Subsequent to achieving a fully funded system, the primary government will contribute only the amount necessary to help fund the normal cost of the current benefit program unless a subsequent unfunded obligation occurs. Additionally, under certain provisions of the California Education Code, employers are required to make contributions of 0.415% of the payroll to the primary government. These contributions are appropriated by the primary government to TRF.

For the year ended June 30, 1998, the APC and the amount of contributions made for the primary government was approximately \$1.9 and \$2.0 billion, respectively. The APC and the percentage of APC contributed for the last three years are shown in Table 29. Actuarial valuations of the TRF are performed biennially. Based on the last valuation, which was performed as of June 30, 1997, the estimated amortization period to retire the actuarial accrued liability is 3 years. Information from the last valuation is also shown in Table 29.

F. Cash Balance Fund

Cash Balance Plan Description: STRS administers the CBPlan as a separate defined benefit plan designed for employees of California public schools who are hired to perform creditable service for less than 50% of the full time equivalent for the position. Participation in the CBPlan is optional to employers, however, if the employer elects to offer the CBPlan, each eligible employee will automatically be covered by the CBPlan unless the member elects to participate in the TRF or an alternative plan provided by the employer within 60 days of hire. At June 30, 1998, the CBPlan had 13 contributing school districts and approximately 3,507 contributing members. For reporting purposes the CBPlan, with assets of \$2 million, is combined with the TRF.

G. STRS 403(b) Program

STRS 403(b) Program Description: STRS administers a 403(b) program through a third party administrator. The 403(b) program plan is a defined contribution plan and is open to any employee who is eligible to participate. Contributions to the program are voluntary, however, the Internal Revenue Code does impose a maximum amount that can be contributed annually. At June 30, 1998, the 403(b) program had approximately 365 participating employers (school districts) and 1,498 plan members.

Table 29

Actuarial Information – Pension Trusts – Primary Government

June 30, 1998

	Public Employees' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	Teachers' Retirement
Last actuarial valuation.....	June 30, 1997	June 30, 1997	June 30, 1997	June 30, 1997	June 30, 1997
Actuarial cost method.....	Individual Entry Age Normal	Aggregate Cost	Aggregate Entry Age Normal	Aggregate Cost	Entry Age Normal
Amortization method.....	Level % of Payroll, Closed	None	Level % of Payroll, Closed	None	Level % of Payroll, Open
Remaining amortization period.....	32 years	None	4.5 years	None	3 years
Asset valuation method.....	Smoothed Market Value	Market Value	Market Value	Smoothed Market Value	Expected Value, 25% Adjustment to Market Value
Actuarial assumption					
Investment rate of return.....	8.25 %	6.00 %	8.50 %	7.50 %	8.00 %
Projected salary increase.....	3.5 – 17.99	3.75	5.75	3.75	5.50
Includes inflation at.....	3.50	3.50	4.50	3.50	4.50
Post retirement benefit increases.....	2 or 3	3.75	3.00	3.50	2.00
Annual pension costs (In millions)					
Year ended 6/30/96.....	\$ 1,169	\$ 104	\$ 1.6	\$ 2.3	\$ 1,728
Year ended 6/30/97.....	1,283	133	3.0	1.9	1,835
Year ended 6/30/98.....	1,178	133	5.4	2.0	1,911
Percent contribution					
Year ended 6/30/96.....	93 %	58 %	100 %	25 %	100 %
Year ended 6/30/97.....	124	38	102	130	100
Year ended 6/30/98.....	100	42	102	34	105
Net pension obligation (In millions)					
Year ended 6/30/96.....	\$ 201.3	\$ 464.0	\$ —	\$ 10.6	\$ —
Year ended 6/30/97.....	—	546.1	—	10.1	—
Year ended 6/30/98.....	—	623.0	—	11.4	—
Funding as of last valuation (In millions)					
Actuarial value – assets.....	44,822	6	7.2	105	67,980
Actuarial accrued liabilities (AAL)–Entry Age.....	43,504	1,664	7.9	97	69,852
Unfunded AAL (UAAL)–Entry Age.....	(1,318)	1,658	0.7	(8)	1,872
Covered payroll.....	9,102	148	15.4	3.9	14,521
Funded ratio.....	103 %	0.4 %	92 %	108 %	97 %
UAAL as percent of covered payroll.....	(14) %	1,120 %	4 %	(205) %	13 %

**H. University of
California Retirement
System Discretely
Presented Component
Unit**

The UCRS consists of a single-employer defined benefit plan funded with University and employee contributions, a defined benefit plan for University employees who elected early retirement under the Public Employees' Retirement System Voluntary Early Retirement Incentive Program (PERS-VERIP), and two defined contribution plans with several investment portfolios funded with employee non-elective and elective contributions. Most University career employees participate in UCRS.

The UCRS provides lifetime retirement income, disability protection, and survivor benefits to eligible employees of the University of California and its affiliates. Membership in the retirement plan is required for all employees appointed to work at least 50% time for a year or more. Generally, five years of service are required to be entitled to plan benefits. The maximum monthly benefit is 100% of the employee's highest average compensation over a 36-month period. The amount of the pension benefit is determined by salary rate, age, and years of service credit with certain cost-of-living adjustments.

Members' contributions are accounted for separately and accrue interest at 6% annually. Upon termination, members can elect a refund of their contributions plus accumulated interest. Vested terminated members who are eligible to retire can also elect a lump sum equal to the present value of their accrued benefits. Both actions thereby forfeit the member's rights to further accrued benefits.

The annually determined rates for employer contributions as a percentage of payroll are based on recommendations of the consulting actuary and appropriations received from the primary government.

Employee contributions may be required to be made to the University of California Retirement Plan. The rate of employee contributions is established annually as a percentage of covered wages, pursuant to the Regents' funding policy, recommended and certified by an enrolled, independent actuary and approved by the Regents, the plan's trustee. During the year ended June 30, 1998, employee contributions to the University of California Retirement Plan were redirected to the University of California Defined Contribution Plan.

There were no changes in actuarial assumptions or benefit provisions that significantly affected the actuarial accrued liability or contribution requirements during the year ended June 30, 1998.

The PERS-VERIP is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to members of the University of California CalPERS program (UC-PERS), who elected early retirement under provisions of the plan. The University contributed to the CalPERS on behalf of these UC-PERS members.

The cost of contributions made to the plan is borne entirely by the University and the Federal Department of Energy laboratories. Over the five-year period ended June 30, 1996, the University and the Federal Department of Energy laboratories were required to make contributions to the plan as determined by the plan's consulting actuary, sufficient to maintain the promised benefits and the qualified status of the plan.

The University of California maintains two defined contribution plans providing savings incentives and additional retirement security for all eligible University employees. The Defined Contribution Plan (the DC Plan) accepts both after-tax and pretax contributions. In addition, the University has established a Tax Deferred 403(b) Plan (the 403(b) Plan). There are no employer contributions to either of these two plans. Participants in the DC Plan and 403(b) Plan may direct their elective and nonelective contributions to investment funds managed by the Treasurer of the Regents of the University. They may also invest contributions in, and transfer plan accumulations to, certain external mutual funds on a custodial plan basis.

The DC Plan pretax contributions are fully vested and are mandatory for all employees who are members of the University of California Retirement Plan. Monthly employee contributions range from approximately 2% to 4% of covered wages depending upon whether wages are above or below the Social Security wage base. The DC Plan and the 403(b) Plan after-tax options are generally available to all University employees. During the year ended June 30, participants contributed \$383 million into these two plans.

Table 30**Actuarial Information – University of California –
Discretely Presented Component Unit**

June 30, 1998

	University of California Retirement Plan	Voluntary Early Retirement Incentive Plan
Last actuarial valuation.....	June 30, 1998	June 30, 1998
Actuarial cost method.....	Entry Age Normal	Unit Credit
Amortization method.....	Level % of Payroll, Open	N/A Closed
Remaining amortization period.....	11 years	N/A
Asset valuation method.....	Smoothed Fair Value	Fair Value
Actuarial assumption		
Investment rate of return.....	7.50 %	7.50 %
Projected salary increase.....	4.5 to 6.5	N/A
Includes inflation at.....	4.00	N/A
Annual pension costs (In millions)		
Year ended 6/30/98.....	\$ —	\$ —
Percent contribution		
Year ended 6/30/98.....	N/A	N/A
Net pension obligation (In millions)		
Year ended 6/30/98.....	\$ —	\$ —
Funding as of last valuation (In millions)		
Actuarial value – assets.....	\$ 27,132	\$ 72.5
Actuarial accrued liabilities (AAL).....	20,617	44.5
Excess of actuarial value of assets over AAL ...	6,515	28.0
Covered payroll.....	4,960	N/A
Funded ratio.....	132 %	163 %

NOTE 25.**POST-RETIREMENT HEALTH CARE BENEFITS**

Health care and dental benefits are provided by the primary government and certain special purpose authorities, which are discretely presented component units, to annuitants of retirement systems to which the primary government contributes as an employer. The special purpose authorities' participation in these benefits is not a material portion of the program. To be eligible for these benefits, first-tier plan annuitants must retire on or after attaining age 50 with at least five years of service, and second-tier plan annuitants must retire on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within

120 days of separation from employment to be eligible to receive these benefits. As of June 30, approximately 97,883 annuitants were enrolled to receive health benefits and approximately 93,705 annuitants were enrolled to receive dental benefits. In accordance with the Government Code, the primary government generally pays 100% of the health insurance cost for annuitants plus 90% of the additional premium required for the enrollment of family members of annuitants. Although the primary government generally pays 100% of the dental insurance premium for annuitants, the Government Code does not specify the primary government's contribution toward dental insurance costs. The primary government recognizes the cost of providing health and dental insurance to annuitants on a pay-as-you-go basis. The cost of these benefits for the year ended June 30 was approximately \$281 million.

Also, the University of California, a discretely presented component unit, provides certain health plan benefits to retired employees in addition to pension benefits. Employees who meet specific requirements may continue their medical and dental benefits into retirement and continue to receive University of California contributions for those benefits. There are approximately 34,000 retirees currently eligible to receive such benefits. The cost of retiree medical and dental coverage is recognized when paid. The cost of providing medical and dental benefits for retirees and their families and survivors for the year ended June 30 was \$89 million.

NOTE 26.**SUBSEQUENT EVENTS**

The following information represents significant events that occurred subsequent to June 30, 1998, but prior to the date of the auditors' report.

From July 1, 1998 through November 20, 1998, the primary government issued \$1.7 billion in revenue anticipation notes that will mature on June 30, 1999. The primary government also issued \$850 million in general obligation bonds, \$271 million of which were used to refund \$269 million of existing general obligation bonds and \$573 million of which were used to retire previously issued commercial paper. In addition, the primary government issued approximately \$376 million in revenue bonds, \$127 million of which were used to refund \$123 million of existing revenue bonds.

In the general election held on November 3, 1998, voters approved the sale of general obligation bonds with the passage of Proposition 1A, the "Class Size Reduction Kindergarten- University Public Education Facilities Bond Act of 1998," authorizes the issuance of \$9.2 billion in bonds.

From July 1, 1998, to November 20, 1998, the Regents of the University of California issued approximately \$363 million in revenue bonds. From July 1, 1998, to November 20, 1998, the special purpose authorities, which are discretely presented component units, issued approximately \$436 million in revenue bonds.

NOTE 27.

YEAR 2000 COMPLIANCE OF COMPUTER SYSTEMS AND OTHER EQUIPMENT

The year 2000 (Y2K) issue is the result of shortcomings in many electronic data-processing systems and other equipment that may adversely affect operations in the year 1999 and beyond. For many years, programmers eliminated the first two digits from the year when writing programs. Unfortunately, if not corrected many programs, will not be able to distinguish between the year 2000 and the year 1900. This may cause the programs to process data inaccurately or to stop processing data altogether. Another factor that may cause problems in programs is the leap-year calculation. Some programs are unable to detect the year 2000 as a leap year. Problems affecting a wide range of governmental activities could result if computers and other electronic equipment that are dependent upon date sensitive coding are not corrected. These problems have the potential for causing a disruption to some government operations and may temporarily increase the cost of those operations.

The State's reliance on information technology (IT) in every aspect of its operations has made Y2K related information technology issues a high priority for the State. A Y2K task force has been created to establish statewide policy requirements; to gather, coordinate, and share information; and to monitor statewide progress. A few departments with mission-critical systems, including the California State University System, the Public Employees' Retirement System, and the State Teachers' Retirement System do not report to this Y2K task force.

Efforts are being focused on applications that support mission-critical business practices. The Governor issued an Executive Order requiring that mission-critical systems be remediated by December 31, 1998; that purchases of new systems, hardware, software, and equipment be Y2K compliant; and limited the start of new computer projects to only those required by law until that department's Y2K problems are resolved. Departments are also required to address interfacing of IT systems with external IT systems, and to report on contingency planning for problems that might occur if IT systems are not fully remediated by the end of 1999.

The following stages have been identified as necessary to implement a Y2K compliant system:

Awareness and assessment stages - When a budget and project plan is established for dealing with the Y2K issue, and the actual process of identifying all of the organization's systems and individual components of the systems is begun;

Remediation stage - When the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems or switching to compliant systems; and

Validation and testing stages - When the organization validates and tests the changes made during the remediation stage.

By June 30, 1998, the awareness and assessment stages had been completed for the 2,432 systems reporting to the Y2K task force, of which 642 are mission-critical. Of the mission-critical systems, 555 required remediation. Of these systems, 128 had been completed by June 30, 1998, and 427 required further remediation, validation, and testing.

Of the total Y2K costs identified by the Y2K task force, more than \$100 million is projected to be expended in years ending June 30, 1999 and 2000. These costs are part of much larger overall IT costs incurred annually by state departments and do not include costs for remediation of embedded technology, desktop systems, and additional costs resulting from the testing process. For the fiscal year ending June 30, 1999, the Legislature created a \$20 million fund for unanticipated Y2K costs, which can be increased if necessary. Additional information on the State's progress in implementing Y2K compliant systems is available from the Department of Information Technology, 801 K Street, Suite 2100, Sacramento, California 95814.

The California State University System, the Public Employees' Retirement System, and the State Teachers' Retirement System had completed the awareness and assessment stages and are in the remediation and validation and testing stages. They expect to spend approximately \$34 million in years ending June 30, 1999 and 2000.

Although state departments are making substantial progress overall toward the goal of Y2K compliance, the task is very large and will likely encounter unexpected difficulties. The State cannot predict whether all mission-critical systems will be ready and tested by late 1999. It also cannot be predicted what impact failure of any particular IT system(s), or of outside interfaces with state IT systems, might have.

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Appendix A – Exhibit 2

STATE CONTROLLER'S STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS JULY 1, 1998 – JANUARY 31, 1999

I.	COMPARISON OF ACTUAL TO 1999-00 GOVERNOR'S BUDGET ESTIMATES.....	FD-2
	STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS – July 1, 1998 - January 31, 1999	FD-2
	SCHEDULE OF CASH RECEIPTS – July 1, 1998 - January 31, 1999	FD-3
	SCHEDULE OF CASH DISBURSEMENTS – July 1, 1998 - January 31, 1999.....	FD-4
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II.	COMPARISON OF ACTUAL TO 1998-99 BUDGET ACT ESTIMATES.....	FD-7
	STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS – July 1, 1998 - January 31, 1999	FD-7
	SCHEDULE OF CASH RECEIPTS – July 1, 1998 - January 31, 1999	FD-8
	SCHEDULE OF CASH DISBURSEMENTS – July 1, 1998 - January 31, 1999.....	FD-9
	COMPARATIVE STATEMENT OF REVENUES RECEIVED (All Governmental Cost Funds – July 1, 1998 - January 31, 1999)	FD-11

Source: State of California, Office of the State Controller

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 1999-00 Governor's Budget Estimates
(Amounts in thousands)
Attachment A

	July 1 through January 31				
	1999				1998
	Actual	Estimate (a)	Actual Over or (Under) Estimate		Actual
			Amount (b)	%	
GENERAL FUND BEGINNING CASH BALANCE	\$ 934,607	\$ 934,606	\$ 1	----	\$ ----
Add Receipts:					
Revenues	31,237,603	30,510,826	726,777	2.4	29,057,263
Nonrevenues	40,606	162,328	(121,722)	(75.0)	539,762
Total Receipts	31,278,209	30,673,154	605,055	2.0	29,597,025
Less Disbursements:					
State Operations	9,046,326	8,835,231	211,095	2.4	9,319,559
Local Assistance	25,641,564	24,732,181	909,383	3.7	21,902,472
Capital Outlay	73,430	100,873	(27,443)	(27.2)	29,824
Nongovernmental	1,241,169	1,126,768	114,401	10.2	46,482
Total Disbursements	36,002,489	34,795,053	1,207,436	3.5	31,298,337
Receipts Over / (Under) Disbursements	(4,724,280)	(4,121,899)	(602,381)	----	(1,701,312)
Net Increase / (Decrease) in Temporary Loans	3,789,673	3,187,293	602,380	18.9	1,809,613
GENERAL FUND ENDING CASH BALANCE	----	----	----	----	108,301
Special Fund for Economic Uncertainties (c)	----	----	----	----	116,707
TOTAL CASH	\$ ----	\$ ----	\$ ----	----	\$ 225,008
BORROWABLE RESOURCES					
Available Borrowable Resources	\$ 9,740,221	\$ 9,491,931	\$ 248,290	2.6	\$ 9,092,743
Outstanding Loans	3,789,673	3,187,293	602,380	18.9	3,000,000
Unused Borrowable Resources	\$ 5,950,548	\$ 6,304,638	\$ (354,090)	(5.6)	\$ 6,092,743

General Note:

This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of intransit items.

Footnotes:

- (a) Statement of Estimated Cash Flow for the 1998-99 fiscal year as presented in the 1999-00 Governor's Budget.
- (b) May not add to total due to rounding.
- (c) Includes the Disaster Response-Emergency Operations Account within the Special Fund for Economic Uncertainties.
- (d) Excludes State School Building Bonds.
- (e) Negative balances are the result of repayments received that are greater than disbursements made.
- (f) Non-Cash transaction.

SCHEDULE OF CASH RECEIPTS

Amounts in thousands)

REVENUES	July 1 through January 31						
	Month of January		1999				1998
	1999	1998	Actual	Estimate (a)	Actual Over or (Under) Estimate		Actual
					Amount (b)	%	
Alcoholic Beverage Excise Tax	\$ 7,743	\$ 26,781	\$ 149,079	\$ 166,781	\$ (17,702)	(10.6)	\$ 169,530
Bank and Corporation Tax	(27,989)	44,050	2,549,246	2,594,117	(44,871)	(1.7)	2,460,093
Cigarette Tax	29,633	15,252	106,677	97,000	9,677	10.0	101,937
Horse Racing Fees	2,738	3,973	15,195	13,674	1,521	11.1	18,480
Inheritance, Gift and Estate Taxes	82,728	65,205	543,164	541,799	1,365	0.3	411,789
Insurance Companies Tax	16,082	6,347	625,859	618,405	7,454	1.2	565,744
Personal Income Tax	4,776,715	4,289,379	17,521,929	16,718,567	803,362	4.8	15,753,625
Retail Sales and Use Taxes	714,878	556,425	9,301,436	9,298,474	2,962	-----	8,925,490
Pooled Money Investment Interest	19,347	20,076	163,761	164,571	(810)	(0.5)	134,685
Trial Court	1,196	13,348	2,926	1,696	1,230	72.5	179,987
Not Otherwise Classified	16,002	66,343	258,331	295,742	(37,411)	(12.6)	335,903
Total Revenues	5,639,073	5,107,179	31,237,603	30,510,826	726,777	2.4	29,057,263
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-----	275,397	2,943	112,000	(109,057)	(97.4)	275,397
Transfers from Other Funds	8,232	22,800	(131,850)	(107,883)	(23,967)	-----	129,972
Miscellaneous	18,470	6,333	169,513	158,211	11,302	7.1	134,393
Total Nonrevenues	26,702	304,530	40,606	162,328	(121,722)	(75.0)	539,762
Total Receipts	\$ 5,665,775	\$ 5,411,709	\$ 31,278,209	\$ 30,673,154	\$ 605,055	2.0	\$ 29,597,025

See notes on page FD-2.

SCHEDULE OF CASH DISBURSEMENTS

(Amounts in thousands)

STATE OPERATIONS	July 1 through January 31						
	Month of January		1999				1998
	1999	1998	Actual	Estimate (a)	Actual Over or (Under) Estimate		Actual
					Amount (b)	%	
Legislative/Judicial/Executive	\$ 60,766	\$ 72,142	\$ 534,334	\$ 526,942	\$ 7,392	1.4	\$ 538,225
State and Consumer Services	32,369	30,241	230,633	231,891	(1,258)	(0.5)	211,562
Business, Transportation and Housing	195	(1,141)	6,716	30,181	(23,465)	(77.7)	11,088
Trade and Commerce	2,411	2,071	20,511	20,572	(61)	(0.3)	18,873
Resources	63,022	34,532	408,609	373,715	34,894	9.3	361,250
CA Environmental Protection Agency	20,136	10,204	70,370	63,793	6,577	10.3	49,340
Health and Welfare:							
Health Services	26,054	9,318	195,539	145,441	50,098	34.4	153,823
Mental Health Hospitals	28,201	21,628	186,955	196,959	(10,004)	(5.1)	204,660
Other Health and Welfare	35,549	(33,614)	264,084	162,567	101,517	62.4	87,763
Education:							
University of California	209,555	176,901	1,526,307	1,506,171	20,136	1.3	1,321,554
State Universities and Colleges	152,081	109,165	1,171,944	1,130,403	41,541	3.7	1,129,510
Other Education	10,036	13,058	82,875	80,840	2,035	2.5	89,992
Corrections and Youth Authority	334,329	340,476	2,326,583	2,325,046	1,537	0.1	2,317,338
General Government	48,944	47,237	408,826	422,910	(14,084)	(3.3)	413,408
Public Employees Retirement							
System	66,106	125,881	481,074	490,003	(8,929)	(1.8)	1,168,971
Debt Service (d)	(2,019)	160,692	1,117,547	1,114,395	3,152	0.3	1,232,741
Interest on Loans	17	—	13,419	13,402	17	0.1	9,441
Total State Operations	1,087,752	1,118,791	9,046,326	8,835,231	211,095	2.4	9,319,551
LOCAL ASSISTANCE							
Public Schools - K-12	2,499,392	1,553,356	12,275,788	11,441,969	833,819	7.3	9,983,891
Community Colleges	156,104	125,274	1,254,392	1,235,537	18,855	1.5	1,060,381
Debt Service - State School							
Building Bonds	—	—	—	—	—	—	28
Contributions to State Teachers'							
Retirement System	19,563	167,441	272,899	273,369	(470)	(0.2)	804,821
Other Education	336,619	19,795	1,000,678	804,876	195,802	24.3	677,861
Corrections and Youth Authority	1,162	1,433	63,829	67,793	(3,964)	(5.8)	52,241
Dept. of Alcohol and Drug Program	2,401	6,173	41,869	35,759	6,110	17.1	60,711
Dept. of Health Services:							
Medical Assistance Program	635,713	327,848	4,224,280	4,381,396	(157,116)	(3.6)	4,099,981
Other Health Services	21,976	26,868	217,865	251,027	(33,162)	(13.2)	147,611
Dept. of Developmental Services	31,149	87,508	629,087	621,987	7,100	1.1	450,301
Dept. of Mental Health	(54,201)	(12,457)	176,359	117,393	58,966	50.2	240,001
Dept. of Social Services:							
SSI/SSP/IISS	545,085	167,415	1,600,340	1,587,595	12,745	0.8	1,157,971
CalWORKs	78,096	119,069	2,015,404	1,955,705	59,699	3.1	1,474,401
Other Social Services	(274,911)	96,588	541,434	494,164	47,270	9.6	689,551
Tax Relief	7,381	6,212	238,921	332,781	(93,860)	(28.2)	224,011
School Facility Aid Program	—	—	29,315	29,315	—	—	35,461
Other Local Assistance	49,708	73,510	1,059,104	1,101,515	(42,411)	(3.9)	742,941
Total Local Assistance	4,055,237	2,766,033	25,641,564	24,732,181	909,383	3.7	21,902,471

See notes on page FD-2.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	July 1 through January 31						
	Month of January		1999				1998
	1999	1998	Actual	Estimate (a)	Actual Over or (Under) Estimate		Actual
					Amount (b)	%	
CAPITAL OUTLAY	12,354	2,433	73,430	100,873	(27,443)	(27.2)	29,824
NONGOVERNMENTAL (e)							
Transfer to Special Fund for Economic Uncertainties	1,189,226	112,000	1,189,226	1,255,000	(65,774)	(5.2)	112,000
Transfer to Other Funds	251,045	14,870	375,035	123,542	251,493	203.6	140,289
Transfer to Revolving Fund	(556)	3,941	60,711	61,152	(441)	(0.7)	66,904
School Loan (f)	----	----	----	----	----	----	----
Advance:							
Earthquake Loan Repayment	----	----	----	----	----	----	45,490
State-County Property Tax Administration Program	2,168	5,538	28,376	10,675	17,701	165.8	(19,849)
Social Welfare Federal Fund	43,217	(27,911)	(178,458)	(67,080)	(111,378)	----	(141,201)
Tax Relief and Refund Account	22,800	(25,900)	22,800	----	22,800	----	26,100
Trial Court Trust Fund	----	----	(110,000)	(110,000)	----	----	----
Counties for Social Welfare	----	----	(146,521)	(146,521)	----	----	(183,251)
Total Nongovernmental	1,507,900	82,538	1,241,169	1,126,768	114,401	10.2	46,482
Total Disbursements	\$ 6,663,243	\$ 3,969,795	\$ 36,002,489	\$ 34,795,053	\$ 1,207,436	3.5	\$ 31,298,337
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	\$ 1,189,226	\$ (280,105)	\$ 1,260,772	\$ 1,255,000	\$ 5,772	0.5	\$ (281,170)
Other Internal Sources	(191,758)	(1,054,500)	828,901	232,293	596,608	256.8	(909,217)
Revenue Anticipation Notes	----	----	1,700,000	1,700,000	----	----	3,000,000
Net Increase / (Decrease) Loans	\$ 997,468	\$ (1,334,605)	\$ 3,789,673	\$ 3,187,293	\$ 602,380	18.9	\$ 1,809,613

See notes on page FD-2.

Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

July 1 through January 31

**MAJOR TAXES, LICENSES, AND
INVESTMENT INCOME:**

	General Fund		Special Funds	
	1999	1998	1999	1998
Alcoholic Beverage Excise Taxes	\$ 149,079	\$ 169,530	\$ -----	\$ -----
Bank and Corporation Tax	2,549,246	2,460,093	7	4
Cigarette Tax	106,677	101,937	313,221	293,084
Estate Tax	542,838	410,830	-----	-----
Gift Tax	30	2	-----	-----
Horse Racing Fees	15,195	18,480	25,882	27,622
Inheritance Tax	296	957	-----	-----
Insurance Companies Tax	625,859	565,744	-----	-----
Motor Vehicle Fuel Tax:				
Gasoline Tax	-----	-----	1,534,360	1,468,087
Diesel & Liquid Petroleum Gas	-----	-----	254,113	234,759
Jet Fuel Tax	-----	-----	1,089	970
Vehicle License Fees	-----	-----	2,175,316	2,184,367
Motor Vehicle Registration and Other Fees	-----	-----	985,618	1,015,822
Personal Income Tax	17,521,929	15,753,625	172	216
Retail Sales and Use Taxes	9,301,436	8,925,490	2,039,445	1,942,890
Pooled Money Investment Interest	163,761	134,685	215	356
Trial Court Revenue s	2,926	179,987	-----	-----
Total Major Taxes, Licenses, and Investment Income	30,979,272	28,721,360	7,329,438	7,168,174

NOT OTHERWISE CLASSIFIED:

Alcoholic Beverage License Fee	1,848	2,613	20,051	18,062
Electrical Energy Tax	-----	-----	22,046	22,846
Private Rail Car Tax	6,254	5,983	-----	-----
Penalties on Traffic Violations	-----	-----	42,083	40,012
Health Care Receipts	10,611	7,337	-----	-----
Revenues from State Lands	9,085	13,788	767	13,064
Water's Edge Election Fee	-----	-----	-----	-----
Abandoned Property	105,555	150,479	-----	-----
Miscellaneous	124,978	155,703	2,226,571	2,030,051
Not Otherwise Classified	258,331	335,903	2,311,518	2,124,044
Total Revenues, All Governmental Cost Funds	\$ 31,237,603	\$ 29,057,263	\$ 9,640,956	\$ 9,292,218

See notes on page FD-2.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 1998-99 Budget Act Estimates
(Amounts in thousands)
Attachment B

	July 1 through January 31				
	1999				1998
	Actual	Estimate (a)	Actual Over or (Under) Estimate		Actual
			Amount (b)	%	
GENERAL FUND BEGINNING CASH BALANCE	\$ 934,607	\$ 934,606	\$ 1	---	\$ ----
Add Receipts:					
Revenues	31,237,603	31,291,774	(54,171)	(0.2)	29,057,263
Nonrevenues	40,606	81,659	(41,053)	(50.3)	539,762
Total Receipts	31,278,209	31,373,433	(95,224)	(0.3)	29,597,025
Less Disbursements:					
State Operations	9,046,326	9,298,234	(251,908)	(2.7)	9,319,559
Local Assistance	25,641,564	25,342,180	299,384	1.2	21,902,472
Capital Outlay	73,430	209,403	(135,973)	(64.9)	29,824
Nongovernmental	1,241,169	1,017,783	223,386	21.9	46,482
Total Disbursements	36,002,489	35,867,600	134,889	0.4	31,298,337
Receipts Over / (Under) Disbursements	(4,724,280)	(4,494,167)	(230,113)	---	(1,701,312)
Net Increase / (Decrease) in Temporary Loans	3,789,673	3,559,561	230,112	6.5	1,809,613
GENERAL FUND ENDING CASH BALANCE	----	----	----	----	108,301
Special Fund for Economic Uncertainties (c)	----	----	----	----	116,707
TOTAL CASH	\$ ----	\$ ----	\$ ----	----	\$ 225,008
BORROWABLE RESOURCES					
Available Borrowable Resources	\$ 9,740,221	\$ 9,150,871	\$ 589,350	6.4	\$ 9,092,743
Outstanding Loans	3,789,673	3,559,561	230,112	6.5	3,000,000
Unused Borrowable Resources	\$ 5,950,548	\$ 5,591,310	\$ 359,238	6.4	\$ 6,092,743

General Note:

This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of intransit items.

Footnotes:

- (a) Statement of Estimated Cash Flow for the 1998-99 fiscal year as presented in the Budget Act of 1998.
- (b) May not add to total due to rounding.
- (c) Includes the Disaster Response-Emergency Operations Account within the Special Fund for Economic Uncertainties.
- (d) Excludes State School Building Bonds.
- (e) Negative balances are the result of repayments received that are greater than disbursements made.
- (f) Non-Cash transaction.

SCHEDULE OF CASH RECEIPTS

(Amounts in thousands)

REVENUES	July 1 through January 31						
	Month of January		1999				1998
	1999	1998	Actual	Estimate (a)	Actual Over or (Under) Estimate		Actual
					Amount (b)	%	
Alcoholic Beverage Excise Tax	\$ 7,743	\$ 26,781	\$ 149,079	\$ 168,097	\$ (19,018)	(11.3)	\$ 169,530
Bank and Corporation Tax	(27,989)	44,050	2,549,246	2,762,789	(213,543)	(7.7)	2,460,093
Cigarette Tax	29,633	15,252	106,677	97,856	8,821	9.0	101,937
Horse Racing Fees	2,738	3,973	15,195	16,481	(1,286)	(7.8)	18,480
Inheritance, Gift and Estate Taxes	82,728	65,205	543,164	466,879	76,285	16.3	411,789
Insurance Companies Tax	16,082	6,347	625,859	609,707	16,152	2.6	565,744
Personal Income Tax	4,776,715	4,289,379	17,521,929	17,198,515	323,414	1.9	15,753,629
Retail Sales and Use Taxes	714,878	556,425	9,301,436	9,488,870	(187,434)	(2.0)	8,925,490
Pooled Money Investment Interest	19,347	20,076	163,761	179,855	(16,094)	(8.9)	134,689
Trial Court	1,196	13,348	2,926	373	2,553	684.5	179,987
Not Otherwise Classified	16,002	66,343	258,331	302,352	(44,021)	(14.6)	335,900
Total Revenues	5,639,073	5,107,179	31,237,603	31,291,774	(54,171)	(0.2)	29,057,261
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-----	275,397	2,943	112,000	(109,057)	(97.4)	275,397
Transfers from Other Funds	8,232	22,800	(131,850)	(140,578)	8,728	-----	129,971
Miscellaneous	18,470	6,333	169,513	110,237	59,276	53.8	134,391
Total Nonrevenues	26,702	304,530	40,606	81,659	(41,053)	(50.3)	539,761
Total Receipts	\$ 5,665,775	\$ 5,411,709	\$ 31,278,209	\$ 31,373,433	\$ (95,224)	(0.3)	\$ 29,597,022

See notes on page FD-7.

SCHEDULE OF CASH DISBURSEMENTS

(Amounts in thousands)

STATE OPERATIONS	July 1 through January 31						
	Month of January		1999				1998
	1999	1998	Actual	Estimate (a)	Actual Over or (Under) Estimate		Actual
					Amount (b)	%	
Legislative/Judicial/Executive	\$ 60,766	\$ 72,142	\$ 534,334	\$ 546,710	\$ (12,376)	(2.3)	\$ 538,225
State and Consumer Services	32,369	30,241	230,633	232,251	(1,618)	(0.7)	211,562
Business, Transportation and Housing	195	(1,141)	6,716	24,199	(17,483)	(72.2)	11,088
Trade and Commerce	2,411	2,071	20,511	20,943	(432)	(2.1)	18,873
Resources	63,022	34,532	408,609	475,460	(66,851)	(14.1)	361,250
CA Environmental Protection Agency	20,136	10,204	70,370	103,541	(33,171)	(32.0)	49,340
Health and Welfare:							
Health Services	26,054	9,318	195,539	181,996	13,543	7.4	153,823
Mental Health Hospitals	28,201	21,628	186,955	219,111	(32,156)	(14.7)	204,660
Other Health and Welfare	35,549	(33,614)	264,084	163,942	100,142	61.1	87,763
Education:							
University of California	209,555	176,901	1,526,307	1,553,333	(27,026)	(1.7)	1,321,554
State Universities and Colleges	152,081	109,165	1,171,944	1,241,148	(69,204)	(5.6)	1,129,510
Other Education	10,036	13,058	82,875	83,882	(1,007)	(1.2)	89,992
Corrections and Youth Authority	334,329	340,476	2,326,583	2,530,981	(204,398)	(8.1)	2,317,338
General Government	48,944	47,237	408,826	330,398	78,428	23.7	413,408
Public Employees Retirement System	66,106	125,881	481,074	460,473	20,601	4.5	1,168,977
Debt Service (d)	(2,019)	160,692	1,117,547	1,116,528	1,019	0.1	1,232,747
Interest on Loans	17	---	13,419	13,338	81	0.6	9,449
Total State Operations	1,087,752	1,118,791	9,046,326	9,298,234	(251,908)	(2.7)	9,319,559
LOCAL ASSISTANCE							
Public Schools - K-12	2,499,392	1,553,356	12,275,788	11,553,205	722,583	6.3	9,983,896
Community Colleges	156,104	125,274	1,254,392	1,285,084	(30,692)	(2.4)	1,060,385
Debt Service - State School Building Bonds	---	---	---	---	---	---	288
Contributions to State Teachers' Retirement System	19,563	167,441	272,899	554,566	(281,667)	(50.8)	804,820
Other Education	336,619	19,795	1,000,678	852,762	147,916	17.3	677,862
Corrections and Youth Authority	1,162	1,433	63,829	54,591	9,238	16.9	52,249
Dept. of Alcohol and Drug Program	2,401	6,173	41,869	46,225	(4,356)	(9.4)	60,716
Dept. of Health Services:							
Medical Assistance Program	635,713	327,848	4,224,280	4,112,609	111,671	2.7	4,099,980
Other Health Services	21,976	26,868	217,865	223,840	(5,975)	(2.7)	147,610
Dept. of Developmental Services	31,149	87,508	629,087	637,630	(8,543)	(1.3)	450,300
Dept. of Mental Health	(54,201)	(12,457)	176,359	276,778	(100,419)	(36.3)	240,003
Dept. of Social Services:							
SSI/SSP/IHSS	545,085	167,415	1,600,340	1,344,986	255,354	19.0	1,157,974
CalWORKs	78,096	119,069	2,015,404	1,824,727	190,677	10.4	1,474,406
Other Social Services	(274,911)	96,588	541,434	1,141,518	(600,084)	(52.6)	689,551
Tax Relief	7,381	6,212	238,921	481,373	(242,452)	(50.4)	224,015
School Facility Aid Program	---	---	29,315	23,730	5,585	23.5	35,468
Other Local Assistance	49,708	73,510	1,059,104	928,556	130,548	14.1	742,949
Total Local Assistance	4,055,237	2,766,033	25,641,564	25,342,180	299,384	1.2	21,902,472

See notes on page FD-7.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)

(Amounts in thousands)

	July 1 through January 31						
	Month of January		1999				1998
	1999	1998	Actual	Estimate (a)	Actual Over or (Under) Estimate		Actual
					Amount (b)	%	
CAPITAL OUTLAY	12,354	2,433	73,430	209,403	(135,973)	(64.9)	29,824
NONGOVERNMENTAL (e)							
Transfer to Special Fund for Economic Uncertainties	1,189,226	112,000	1,189,226	1,255,000	(65,774)	(5.2)	112,000
Transfer to Other Funds	251,045	14,870	375,035	93,594	281,441	300.7	140,289
Transfer to Revolving Fund	(556)	3,941	60,711	(5,717)	66,428	-----	66,904
School Loan (f)	-----	-----	-----	-----	-----	-----	-----
Advance:							
Earthquake Loan Repayment	-----	-----	-----	-----	-----	-----	45,490
State-County Property Tax Administration Program	2,168	5,538	28,376	339	28,037	8,270.5	(19,849)
Social Welfare Federal Fund	43,217	(27,911)	(178,458)	(163,812)	(14,646)	-----	(141,201)
Tax Relief and Refund Account	22,800	(25,900)	22,800	4,900	17,900	365.3	26,100
Trial Court Trust Fund	-----	-----	(110,000)	(20,000)	(90,000)	-----	-----
Counties for Social Welfare	-----	-----	(146,521)	(146,521)	-----	-----	(183,251)
Total Nongovernmental	1,507,900	82,538	1,241,169	1,017,783	223,386	21.9	46,482
Total Disbursements	\$ 6,663,243	\$ 3,969,795	\$ 36,002,489	\$ 35,867,600	\$ 134,889	0.4	\$ 31,298,337
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	\$ 1,189,226	\$ (280,105)	\$ 1,260,772	\$ 1,255,000	\$ 5,772	0.5	\$ (281,170)
Other Internal Sources	(191,758)	(1,054,500)	828,901	604,561	224,340	37.1	(909,217)
Revenue Anticipation Notes	-----	-----	1,700,000	1,700,000	-----	-----	3,000,000
Net Increase / (Decrease) Loans	\$ 997,468	\$ (1,334,605)	\$ 3,789,673	\$ 3,559,561	\$ 230,112	6.5	\$ 1,809,613

See notes on page FD-7.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through January 31			
	General Fund		Special Funds	
	1999	1998	1999	1998
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	\$ 149,079	\$ 169,530	\$ ----	\$ ----
Bank and Corporation Tax	2,549,246	2,460,093	7	4
Cigarette Tax	106,677	101,937	313,221	293,084
Estate Tax	542,838	410,830	----	----
Gift Tax	30	2	----	----
Horse Racing Fees	15,195	18,480	25,882	27,622
Inheritance Tax	296	957	----	----
Insurance Companies Tax	625,859	565,744	----	----
Motor Vehicle Fuel Tax:				
Gasoline Tax	----	----	1,534,360	1,468,087
Diesel & Liquid Petroleum Gas	----	----	254,113	234,759
Jet Fuel Tax	----	----	1,089	970
Vehicle License Fees	----	----	2,175,316	2,184,361
Motor Vehicle Registration and Other Fees	----	----	985,618	1,015,822
Personal Income Tax	17,521,929	15,753,625	172	216
Retail Sales and Use Taxes	9,301,436	8,925,490	2,039,445	1,942,893
Pooled Money Investment Interest	163,761	134,685	215	356
Trial Court Revenues	2,926	179,987	----	----
Total Major Taxes, Licenses, and Investment Income	30,979,272	28,721,360	7,329,438	7,168,174
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	1,848	2,613	20,051	18,062
Electrical Energy Tax	----	----	22,046	22,846
Private Rail Car Tax	6,254	5,983	----	----
Penalties on Traffic Violations	----	----	42,083	40,012
Health Care Receipts	10,611	7,337	----	----
Revenues from State Lands	9,085	13,788	767	13,064
Water's Edge Election Fee	----	----	----	----
Abandoned Property	105,555	150,479	----	----
Miscellaneous	124,978	155,703	2,226,571	2,030,058
Not Otherwise Classified	258,331	335,903	2,311,518	2,124,042
Total Revenues, All Governmental Cost Funds	\$ 31,237,603	\$ 29,057,263	\$ 9,640,956	\$ 9,292,216

See notes on page FD-7.

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